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A History

of

RATION BANKING

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of
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by
Joseph Alexander Kershaw

OFFICE OF TEMPORARY CONTROLS
Office of Price Administration

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Historical Reports on
War Administration

OFFICE OF TEMPORARY CONTROLS
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LETTER OF TRANSMITTAL

APRIL 25, 1947.

MY DEAR MR. McCULLOUGH: I hand you herewith a volume entitled *A History of Ration Banking*, prepared by Joseph A. Kershaw, the first chief of the Ration Banking Branch. It is one of the narrative and analytical studies in the OPA series of Historical Reports on War Administration. As such, it is a part of the agency's share in the comprehensive program of studies of the experience of the civilian administrative agencies brought into being by the war, which was initiated by President Franklin D. Roosevelt in 1942 and confirmed in July 1945 by President Harry S. Truman. The general scope and purpose of this program is set forth in the preface to the *United States at War*, recently published by the Bureau of the Budget.

The present volume relates how OPA borrowed, for a purpose unique in American history, the facilities and services of the Nation's commercial banks; and it analyzes the problems involved in the banks' handling of ration currency. OPA of course availed itself of outside assistance in many quarters to accomplish its manifold tasks, some of it compensated and much purely volunteer—the schools to distribute war ration books, the radio to broadcast public information, the bulletins of manufacturers and trade associations to carry trade instructions, for example. Nor was OPA alone among government agencies in adapting the institutions of a free society to perform the work of protecting the country against the dangers the war brought to the domestic economy. But the story of ration banking has no counterpart in OPA annals. Practically every commercial bank was enlisted in 1943, for the duration of rationing, to perform an integral function in the administration of rationing, fundamental to the successful conduct of the entire program. For this they were compensated only to the extent of covering out-of-pocket expenses. Accounts were opened with a large proportion of the wholesalers and retailers dealing in rationed commodities; deposits were made, checks paid and cleared, tokens issued and changed for coupons; overdrafts were reported and stolen and forged currency traced. The whole machinery for handling and safeguarding new and unfamiliar forms of currency was provided. In these terms the story affords an outstanding illustration of successful cooperation between government and commerce, of interest to all who are concerned with the harmonious development of the interplay

of social controls and private enterprise, and more specifically to students of public administration.

This study has another and more technical interest. There are distinct limits on the analogy between ration currency and ordinary money, associated with the special functions and purposes of currency in a system of rationed distribution. For that reason some of the functions banks are accustomed to perform with money deposits, such as making loans and controlling overdrafts, were out of place in the system of ration banking. The experience analyzed in this volume therefore illuminates in a new perspective many of the accepted principles of commercial banking, and deserves the attention not only of bankers but also of students of banking and economists generally.

The plan of procedure in the preparation and publication of this volume follows the same lines approved at the time the first of our substantive publications, *The Beginnings of OPA*, was undertaken. The author's name on the title page indicates that he has been given both freedom and responsibility for the development of his material. He has had full access to file materials in the agency so far as physical limitations permitted their use, and has had the benefit of consultation and advice from many official and unofficial sources; but the statements of fact and of interpretation are his. It would indeed be physically impossible for the agency at this stage to guarantee, by an independent checking, the complete factual accuracy of the text; and it would be both impossible and undesirable for it to attempt here to impose an official view in the evaluation of its many past activities. The author is personally responsible on both counts. His manuscript has therefore been reviewed by the Policy Analysis Committee, consisting of yourself, Carl A. Auerbach, Ervin H. Pollack, Donald H. Wallace, and myself, only to make sure that statutory requirements relating to the disclosure of confidential information have been observed, and to safeguard appropriate standards of scholarship and objectivity. The decision on publication rested with this committee, so far as the agency was concerned.

Sincerely,

HARVEY C. MANSFIELD, *Chief,*
Policy Analysis Branch.

HON. MAX McCULLOUGH, *Commissioner,*
Office of Price Administration, Office of Temporary Controls.

AUTHOR'S PREFACE

This study is concerned with the use of the Nation's commercial banks in the consumer rationing programs during the World War II emergency. These programs brought with them a supplementary currency system; to enable "ration currency" to be handled and controlled, assistance of the commercial banks was solicited and secured. For several years these economic institutions were an integral part of the wartime controls. The development and operation of the process whereby this was accomplished is the subject of the pages that follow.

The author was originally chairman of the ration banking working committee in the Office of Price Administration, then chief of the Ration Banking Branch, and finally (until September 1945) Director of the Ration Currency Control Division, of which the Ration Banking Branch was a part. Preparation of the volume was completed while the author was a member of the staff of OPA.

This close relationship with the administrative process which the study describes and analyzes has had the advantage of making access to the records relatively simple, and of making possible many interviews and discussions which would otherwise have been difficult if not impossible. However, so intimate a participation in every phase of the program's development may cast some doubt on the study's objectivity. Accordingly, every effort has been made to describe and analyze the program dispassionately and to avoid the role of defender, with what success the reader must judge.

The operation of OPA, like that of most wartime emergency agencies, was such that its historical record cannot be reconstructed from an examination of documentary evidence. Conferences and meetings, and the decisions that emerged from these discussions, were usually unrecorded, with the result that much of the agency's history must be reconstructed from fragmentary notes and from the recollections of participants. The present contribution is no exception. Nonetheless, the author has attempted to document statements wherever appropriate records are available, particularly those most in need of support. In many instances it has been necessary to make reference to unpublished material such as memoranda, letters, and reports. Such materials are now in OPA files, but by June 30, 1947, will have been transferred to the National Archives where they will be available

to interested students under the classification "Record Group 123, National Office Rationing Files."

A number of former colleagues and other interested persons have read the manuscript and offered valuable suggestions. Most important of all, Prof. R. J. Saulnier of Columbia University has patiently and sympathetically given of his counsel. The author's debt to him is great.

APRIL 1947.

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CHAPTER I

Rationing in the Wartime Economy

Ration Banking existed only as a means of facilitating the operation of commodity rationing programs. In order to understand it properly, therefore, a preliminary and general discussion of commodity rationing is necessary. This chapter attempts to provide this general background and to serve as an introduction to the more specific discussion of ration banking which follows.

When and Why Commodity Rationing Was Undertaken

The rationing of a given commodity, or group of commodities, was undertaken by the rationing agency (the Office of Price Administration) only when authority to do so was delegated by the appropriate supply agency. Thus, the Petroleum Administration for War decided when gasoline and fuel oil should be rationed, and delegated authority to the Office of Price Administration to carry out the rationing program. Similarly, the Department of Agriculture decided when the various food products should be rationed, and so directed OPA. In spite of the fact that a number of different supply agencies determined whether, and when, a given rationing program should be undertaken, a fairly consistent policy with respect to these decisions was followed by the Administration.

A rationing program was undertaken when (1) the commodity in question was "essential" to the civilian economy and (2) the demand for the commodity was greater than its supply at the controlled price. "Essentiality" was not subject to precise definition, but generally an item was considered essential if inability to obtain it, or if a grossly inequitable distribution of it, would have a deleterious effect on the health or morale of civilians, or impede the war effort. Inability to obtain gasoline, shoes or tires would keep war workers away from their jobs; lack of fuel oil would impair health; and maldistribution of food would react unfavorably on the war effort.

An excess of demand over supply at the controlled price was caused generally by a reduction in supply coupled with an increase in demand as incomes rose. In some cases one factor predominated, however.

For example, the dislocation in the supply-demand relationship in sugar was almost exclusively attributable to the reduction in supply; because of the low income elasticity of sugar, demand was not materially increased as national income rose. A contrasting exception may be found in the meat situation. For most of the rationing period, the supply of meat was well above prewar averages, but a high income elasticity so increased the demand as national income rose as to dislocate the supply-demand relationship seriously even at the higher supply levels.

But rationing was not always undertaken when a shortage developed in an essential commodity. Because the rationing agency worked under such pressure, and because shortages developed so quickly in many cases, administrative difficulties, budgetary, and other considerations frequently played a part in the decision to ration a commodity. For example, coffee was rationed and cigarettes were not, though the shifts in the supply and demand schedules of both commodities were extensive, and a case could have been made out for the rationing of either commodity on grounds of essentiality. Again, bicycles were rationed and apparel was not. The difference in the administrative difficulties inherent in operating apparel and bicycle programs was probably more important in this decision than grounds of essentiality.

What Rationing Accomplished

On April 27, 1942, President Roosevelt sent his Cost-of-Living Message to Congress. It contained the following paragraph:¹

. . . it is obviously fair that where there is not enough of any essential commodity to meet all civilian demands, those who can afford to pay more for the commodity should not be privileged over others who cannot . . . where any important article becomes scarce, rationing is the democratic, equitable solution.

In the earlier phase of the war period, this rather elementary concept of the objective of rationing was embraced generally. It was expanded gradually as it became apparent that other goals could be achieved by rationing. Most of the theory of rationing, and its administrative techniques, developed empirically as the several programs grew. The primary objectives of the several programs were as follows:

(a) *Equitable distribution among consumers.*—A primary consideration behind every rationing program was the desire to avoid an inequitable distribution of a commodity or group of commodities considered essential in the civilian economy.

Rationing, in itself, neither reduced nor increased the supply of any commodity, but it had a major effect on its distribution. In the

¹ C. R., 77th Cong., 2d sess. P. 3691.

absence of rationing and of effective price control, a commodity in short supply would be rationed by rising prices with the result that only the well-to-do could obtain it. With price control, and in the absence of rationing, the produce would go to the black market or to those who had the leisure to queue for it. In neither case could the resulting distribution be termed "equitable."

By and large, rationing succeeded in avoiding this type of distribution. By giving each eligible person a license to purchase, and by determining eligibility and size of individual rations in such a way that the licenses to purchase approximately equalled the available supply of the commodity, eligible persons were assured of their shares.

(b) *Equitable distribution among areas.*—Many important commodities are produced in a relatively small number of areas. Normally, they move out of these producing areas seeking a market. As the supply diminishes, or as consumer incomes and purchases increase, the market areas tend to shrink toward the producing areas. More and more, the supply can be disposed of locally, enabling producers to avoid transportation and other costs.

One of the very important accomplishments of rationing was to force a reversal of this trend and to push the product away from the producing areas. The purchasing power of those in all areas, with respect to the rationed commodity, was equalized, with the result that a more general and equitable geographical distribution took place. This accounts for the paradox of rationing in the midst of local plenty, as was sometimes necessary. The most striking examples of this situation are to be found in gasoline and fuel oil rationing.

(c) *The conservation of another product in short supply.*—The most conspicuous example of this situation was the early Nation-wide gasoline rationing program.² A substantial store of the Nation's supply of rubber was on the wheels of its automobiles; it could not be rationed since consumers already owned it. Nevertheless it was essential that it be conserved if wartime transportation was not to collapse. The result was the gasoline rationing program, launched before any gasoline shortage developed, which slowed the wheels and conserved the rubber.

(d) *The protection of a substitute for a product in short supply.*—At times it was necessary to ration a commodity, not because of a shortage in its supply, but because of an abnormal demand for it created by the shortage and rationing of an economic substitute. For example, there were times when the supply of butter would apparently warrant its removal from the ration list. This could not be done,

² Gasoline was first rationed on the Eastern seaboard only, because of a shortage of the commodity in that area. The reference in the text is to the extension of the program in December 1942.

however, simply because other fats such as lard were in very short supply. The demand for butter, consequently, was abnormally strong because those unable to buy lard or oleo or unwilling to spend points for them would have turned to butter to satisfy their unfulfilled demand for fats.

A similar situation prevailed at times among meat products. It was sometimes necessary to continue to ration a given type of meat because the supply, while adequate under normal conditions, would have been insufficient to withstand the abnormal demand which existed because other types of meat were scarce and rationed.

For many months it appeared that coal would have to be rationed; a program was ready to be installed almost at a moment's notice. The interrelationships between coal and fuel oil are obvious; they are very close economic substitutes. Coal rationing was avoided because, among other reasons, the conversion of heating facilities from fuel oil to coal was costly and sometimes impossible because of lack of materials. The substitutes were prevented from acting in the customary fashion.

(e) *Rationing as an aid to price control.*—In the commodity areas in which rationing was undertaken, price control was simpler to maintain than it would otherwise have been. This was the case simply because rationing reduced demand and thus relieved the pressure on the controlled price.

To be truly effective in controlling the general level of prices, however, rationing would have had to be far more extensive than it was.³ So long as only a segment of the national product was rationed, the tendency was to reduce pressures on those products rationed but to increase the pressure correspondingly in the unrationed areas so that the net increase in the cost of living would still be considerable. True general price control through rationing would have been achieved only by "expenditure rationing," whereby each individual in the domestic economy was given a fixed sum of spendable income which was related to the supply of commodities produced at the desired price level.

Offensive vs. Defensive Rationing

Rationing can be used as a positive technique for the regulation of the wartime economy, or it can be used as a defense against short supply for essential commodities. In the United States, the latter policy was followed. The Administration did not ration unless ab-

³ The Research Division at OPA estimated that, at the height of rationing, commodities which in 1941 accounted for 20 to 25 percent of consumer expenditures were subject to rationing. Memorandum, R. H. Riley to J. A. Kershaw, "The Extent of Rationing," December 30, 1946.

solutely essential and followed the policy of terminating rationing programs at the earliest possible moment. To a considerable extent this policy can be explained by the desire to avoid pressures from interested trade groups, from Congressmen and from budget limitations. Basically, however, it stemmed from the novelty of the whole idea of rationing and America's experience with it. The rationing picture can be understood only in view of the fact that at the time of the Pearl Harbor attack the Nation was totally unprepared for any form of consumer rationing. Not only was the idea alien to the people, but, except for a handful of men in Washington, practically no thought had been given by the Government to the possibility of having to ration consumer goods.⁴

The contrary policy might have been economically more desirable. For example, an apparel rationing program installed in 1942 or 1943 would certainly have made possible greater stabilization of prices in that field and quite possibly would have avoided the supply and distribution crisis that arose in the winter of 1945-46, particularly in men's clothing. Or again, the wisdom of abandoning meat rationing in November of 1945 might be questioned, not on the basis of availability of supplies at that time, but because of the deteriorating effect on meat price control, an effect that quickly developed.

Kinds of Rationing

Given the varieties of products rationed by the Office of Price Administration, it was natural that a number of different kinds of rationing programs were developed. The programs were not devised according to any preconceived pattern, but on an *ad hoc* basis.

(a) *Universal vs. differential rationing.*—In some rationing programs, ration currency was issued to everyone in equal amounts. This was generally true of all the food programs, except that coffee ration currency was not issued to children. Such programs came to be characterized as universal rationing, since no attempt was made to vary the ration according to past usage or need.

Other programs, such as tires, rubber boots, and fuel oil provided that only certain members of the community would receive rations and that the rations would vary according to the needs of the recipient. Thus, rubber boot certificates were issued only to certain types of workers and then only if need could be conclusively demonstrated. This type of rationing came to be known as differential rationing.

⁴ Paul M. O'Leary, "Wartime Rationing and Governmental Organization," *The American Political Science Review*, December 1945. O'Leary, who was the first head of the rationing organization, states (p. 1089): "Pearl Harbor found the United States with no rationing plans, no rationing organization, and no real appreciation of the indispensability of rationing in an all-out war effort."

The theoretical categorization drawn above is not absolutely clear-cut. Under all the universal rationing plans, some persons received more than others. For example, the food rationing regulations all provided that additional rations could be issued on a doctor's prescription, and the shoe regulations made it quite simple for additional rations to be obtained for growing children.

The universal rationing programs, without exception, were included in the ration banking plan, because of the fact that they all made use of a large amount of ration currency; the physical handling of which created many problems. Most of the differential programs were operated on a certificate basis; that is, when individual eligibility was demonstrated a certificate for the indicated number of units was issued to the applicant. Paper volume was never great; at any given time, the volume of certificates in circulation was not large. Ration banking facilities were never considered essential or advisable for these programs. The two exceptions to these statements were gasoline and fuel oil, which, however, were the only differential programs using coupons. In both of these programs the number of units (gallons) of the product sold each month was large and, in consequence, the volume of paper used was also large.

(b) *Unit rationing vs. point rationing.*—Most of the rationing programs were "unit systems," that is, the ration currency was given a value of a definite number of units of the rationed commodity. The size of the ration was then changed from time to time by changing the value of the currency, or by changing the period which a given amount of it had to last.

In shoes, a stamp was always good for one pair of shoes. The ration was reduced or increased by lengthening or shortening, respectively, the interval between validation of stamps. In gasoline, on the other hand, the A coupon had a number of different values at different times, and it also had a number of different validity durations. Both methods were used in changing rations. To state this another way, the Office of Price Administration could alter the real rationing income in a unit rationing system either by changing the value of the currency or by changing the consumer's income rate.

Point rationing was not basically different. In this system consumers were given a substantial number of points periodically and the rationed items were given "point prices." The system was used when more than one item was rationed under one program. At the height of meat rationing several hundred items were rationed on what came to be called the "red point list."

The ration under point rationing, as under unit rationing, could have been changed by extending or reducing the length of time over which a given number of points had to last, though this method was

never used. The ration was actually changed by altering the point prices of the rationed items from time to time, which is analogous to changing the value of a stamp in unit rationing.

Point rationing had as its greatest advantage a considerable degree of flexibility and simplicity. Within a rather broad field the consumer was given a free choice; she was at complete liberty to spend her periodic allotment of points on any items included in the program. It was simple because she had only one kind of ration currency to understand, a matter of equal importance, incidentally, when applied to the trade.

To permit a point rationing system to achieve the necessary flexibility and workability, it was essential that a substantial number of points be available to consumers. Forced multiple purchases, which would result from a point price of less than one point, were avoided. Hence, if the lowest valued item was set at one point per unit, the highest might be 20 or 30. Necessarily, therefore, substantial numbers of points had to be issued. In addition, if points were too low, the point pricing task became difficult. The smallest possible point change of an item priced at two points is a 50 percent change, which was frequently too great.

The result of all these considerations was that from 60 to 64 red points per month were issued to each consumer, and from 48 to 50 blue points, except when many items were off the list. For a while this meant 16 red stamps and 12 blue stamps (at an average value of four points per stamp) for each of 130,000,000 ration book holders each month. The volume of paper was tremendous, a fact which had many important implications for the ration banking program.

Ration Currency—Nature and Behavior

While the rationing programs were operating, certain economic areas were in effect served by two monetary systems. In many ways ration currency behaved like dollars, in others it did not. In most instances a knowledge of monetary principles made possible an accurate forecast of the behavior of ration currency in a given set of circumstances.

(a) *Stamps and coupons.*—The two terms “stamps” and “coupons” had best be used interchangeably to denote the small ration currency issued in large quantities to all or a large number of consumers. Unfortunately, no definition is quite satisfactory since the different stamps and coupons came to be handled variously in the different programs. Thus, most stamps and coupons were issued “as is” without being individually marked, but special shoe stamps were marked by the issuing district office, and for a while gasoline coupons were issued only after the local board had inscribed the applicant’s vehicle license

number. Again, most stamps and coupons were issued to consumers, but some gasoline coupons (bulk and inventory) were issued to dealers. Finally, most stamps and coupons were small, but food coupons were relatively large. The only truly common characteristics were that they always contained a fixed imprinted value.

(*b*) *Certificates*.—In every rationing program some use was made of certificates. These rationing forms were usually check size, and were made out in favor of a specific individual and for a certain number of units at the time of issuance. Generally speaking, they were issued to the trade rather than to consumers, although there were occasions when a consumer received a special ration in the form of a certificate. In those programs that came to be included in ration banking, most of the certificates were eventually replaced by the use of the ration check. In those not included in ration banking, the certificate was the only form of ration currency used.

(*c*) *Tokens*.—In the meat-fats and processed foods rationing programs, extensive use was made of ration tokens. They came into use in February 1944.⁵ The blue tokens were withdrawn in October 1944,⁶ the reds in January 1946.⁷ The tokens were slightly smaller than a dime, made of vulcanized fiber, and worth one point each.

Ration tokens were introduced so that it would be possible to make change in rationing transactions, and so that the value of the individual red and blue stamps could be raised. Their introduction made possible a substantial reduction in the number of stamps in circulation, which was its major purpose, and simplified the two point rationing programs by enabling the establishment of a uniform value for all red and blue stamps.

The tokens were the only form of ration currency which circulated freely and indefinitely. All other types were designed to be used once and then removed from circulation. The flow will be more carefully described at a later point; suffice it to say here that a stamp spent by a consumer was eventually destroyed by the Office of Price Administration after having been used for one purchase. The token on the other hand moved repeatedly from consumer to retailer and back, occasionally finding its way into and out of a bank. In this respect the tokens were closer to money than any other kind of ration currency.

(*d*) *Ration checks*.—The ration check was the creature of the ration banking system. In behavior and appearance it was similar to ordi-

⁵ Amendment 108 to Ration Order 16, February 17, 1944. 9 F. R. 1909. Amendment 9 to Revised Ration Order 13, February 17, 1944. 9 F. R. 1908.

⁶ Amendment 53 to Revised Ration Order 13, September 8, 1944. 9 F. R. 11113.

⁷ Amendment 1 to Order of Revocation to Revised Ration Order 16, December 17, 1945. 10 F. R. 15173.

nary dollar checks, being made payable to a payee by the drawer, deposited in a bank by the payee or subsequent endorser, and cleared to the drawee bank for debit to the drawer's account, where it was canceled and returned to the drawer with his statement.

The ration check was designed to facilitate rationing transactions. The other currency (stamps, coupons and certificates) could have moved all the way through the trade channels without being replaced by ration checks, but for reasons to be discussed later, it was more convenient to deposit the rationing "money" as soon as possible and use the ration check to draw against the credit established by the deposit.

The ration check was used almost exclusively by the trade. For the most part consumers were unaware of its existence, though certain types of commercial consumers, such as the owner of a fleet of trucks with a large gasoline storage tank, used ration checks exclusively in buying. They were also used by the Office of Price Administration in issuing special rations. A typical example would be the issuance of the bi-monthly sugar ration to a large hotel. The ration check was drawn, of course, only by those with ration bank accounts.

Regulating Ration Currency

It was through the ration currency system that the actual distribution of the rationed commodity was effected. Simply stated, the supply agency (Petroleum Administration for War in the case of gasoline and fuel oil, War Food Administration in the case of food, etc.) made available periodically a given supply of the commodity for civilian consumption, and the Office of Price Administration issued that much ration currency to consumers. By equating the outstanding ration currency to the physical supply, the Government was theoretically assured that the supply would be distributed equitably.

Actually, of course, this is a great over-simplification of a complex problem. For a number of reasons it was never possible to achieve such an exact equation. For one thing, consumers never spent all the currency issued to them, so that it became necessary to estimate and allow for this factor, a difficult task. For another, production and availability were generally fairly even over a given period but consumption might not be. For administrative reasons it was necessary to issue substantial supplies of currency to some consumers, the currency to last a considerable period. For example, all "industrial users" of sugar (bottlers, bakers, confectioners) received their rations at the same time, once every three months. While there would be a sufficient quantity of sugar during the quarter for this currency to be honored, if they all attempted to buy their complete quotas at its beginning,

either some of them would be unable to do so, or many consumers with perfectly valid stamps would find it impossible to redeem them.

Many complications were also injected by OPA's inability to control the ration currency system completely. Counterfeit currency became important in gasoline, meat, and sugar rationing; each counterfeit stamp or coupon purchased a unit of the commodity which was therefore not available for the holder of a legitimate stamp or coupon. Currency was sometimes stolen from local boards and other distribution points. Sometimes the boards were inclined to be too generous, rather than to follow instructions carefully, in issuing special rations; precise supervision of 5,600 local boards was not possible. There were many other tactics for evading the rationing restrictions, most of which will be discussed in later chapters. All of them complicated the task of equating ration currency to the allocated supply of the product.

The existence of too little currency in the monetary system will cause prices generally to fall. Ration "prices," however, were always fixed by OPA and could not legally fall. The result of a miscalculation putting too little ration currency in circulation, therefore, was that the goods would not move from the shelves. This was always certain to bring quick recriminations from the trade, particularly if the rationed items were perishable. Such recriminations were certainly justified, for a rationing system should not impede the movement of a commodity already in short supply when it has been determined that the available supply should move to consumers.

Too much currency in the monetary system will push prices upward. Here again such a result is not possible under rationing where the ration prices are rigidly fixed. Too much ration currency in the system created a situation which the rationer dreaded almost more than any other, for it meant that shelves become bare while the legitimate demands (within rationing) of some consumers were not satisfied. Queues developed for rationed commodities, and the available supply went to those with the leisure to wait, the very situation that rationing was designed to prevent.

Such a lack of balance developed a number of times in both sugar and gasoline. Frequently it was due to a series of local stringencies brought about by temporary break-downs in transport facilities in certain areas. No OPA rationing program was able to cope with this problem, since there was no mechanism for reducing rations in small areas. Where the excess of currency was general it could of course be remedied by a devaluation of the currently valid currency (as was done in fuel oil a time or two), by tightening up on issuance quotas (tires), or by elongating the validity period of the current

stamp (shoes). Ordinarily, however, these remedies could not be made effective immediately.

The two point programs presented rather special problems. While there was rarely if ever a real excess of ration currency, in the sense that a consumer was unable to spend her points on some items on the ration list, there were frequent shortages or apparent surpluses on the list. In the red program, for example, butter was for most people the most desirable item. People apparently made provision first for their butter needs, and then used their remaining points to what they considered their advantage. The result was that butter was difficult to control through point price manipulation. The effect of a sharp increase in the butter point price was sometimes scarcely seen in the sales of butter, but would reduce markedly the purchases of all or many other items on the red list.

The butter situation was further complicated by the need to keep its point price divisible by four because of customary quarter-pound sales. With a point price of 12, therefore, the smallest reduction possible was by $33\frac{1}{3}$ percent, and this could not be risked if the supply was only slightly in excess of demand at 12 points.

Inflexibilities and problems such as these, much more pronounced in the red than in the blue program, meant that some of the items were always slower movers than others and that there frequently appeared to be a shortage or surplus of red or blue currency. Another way of saying shortage or surplus of currency, of course, is to say that the point prices were generally too high or too low. Actually, general over- or under-issuance rarely occurred, but within the list certain prices were undoubtedly in improper relationship with one another from time to time. This was inevitable, in spite of the fact that they were adjusted monthly, because there were so many items and because supply conditions changed so rapidly and unpredictably.

Because of the difficulty of controlling the various commodities within the red system, there were many who urged that butter be removed from the red list and rationed on a unit basis like sugar. While this would unquestionably have afforded better butter rationing, it was never seriously considered because of an unwillingness to subject the trade and the consumer to still another ration currency system. Interestingly enough, the converse was true of sugar. From time to time it was proposed to include the sugar program in either the red or blue program. Because of the fear of being unable to control sugar adequately in view of its high demand inelasticity, this matter was not considered seriously. Decisions once made in rationing tended to become institutionalized rapidly.

The Dilemma of Expiration Dates

The problem of expiration dates on food ration currency will be discussed in detail in the chapter on ration tokens. Some general comments, however, may be in order here. In the summer of 1943, when the major rationing programs had been launched, most of the regulations provided that the consumer currency would become invalid after a certain date if not used. Later in the programs most of these regulations were changed to eliminate these provisions, and the currency, once issued, could be spent at any time. Finally, at Christmas of 1944, the food regulations were amended once more and expiration dates were reinstituted, though with some modifications.⁸ These changes indicated the groping that took place in OPA for the solution to the expiration date dilemma. The simple fact was that it was unsatisfactory to have consumer currency expire and it was also unsatisfactory not to have it expire.

The original decision to have a rather brief validity period for a given stamp was based on a desire to maintain close control of the product. In sugar, for example, a consumer stamp would be validated for 2 pounds of sugar for a month. At the end of that month, the situation would be reevaluated, and another stamp validated, perhaps for a different amount or time. The previous stamp had been invalidated and could be dropped from all calculations.

There were several defects in this procedure that rapidly became apparent. Even though a consumer might not need sugar, she was afraid to let the stamp expire for fear she might later need it. Since any ration is liberal for at least some people, "legitimate hoards" began to develop. Housewives acquired a strong fear of "losing" a valid stamp. When coffee rationing ended, consumer stocks were abnormally high and sales at retail immediately fell. There was no longer a stimulus to buy! Obviously, a rationing system ought not to stimulate unneeded purchases.

Secondly, at expiration date time, the stores were frequently overwhelmed by anxious consumers. This was particularly true in food stores when blue, red and sugar stamps all expired at once. Normal business ceased for a day or two while the last precious ration stamps were spent. There were many stories of consumers imploring grocers to give them something—anything—"to take the last four red points." In shoe stores there were instances of actual physical harm resulting from anxious crowds trying to avoid losing a stamp.

⁸ Amendment 32 to Revised Ration Order 16, December 26, 1944. 9 F. R. 15054. Amendment 70 to Revised Ration Order 13, December 26, 1944. 9 F. R. 15054. Amendment 3 to Second Revised Ration Order 3, December 26, 1944. 9 F. R. 15048.

Thirdly, in order to permit retailers to spend stamps that had expired for consumers, it was necessary to fix a trade expiration date some days later than the consumer expiration date.⁹ This enabled merchants to take expired stamps from consumers, the stamps ostensibly valueless, and build up credit for later black market sales. This came to be called "stamp-snatching" and was one of the ways that the inventory responsibility of the merchant was avoided, since no rationed commodity was given by the retailer in exchange for such stamps.

Finally, the retailer who had a ration bank account could make a deposit before the trade expiration date, and use the credit at any time. When the credit was posted to his ledger, the identity of the stamp was completely lost. The retailer without a bank account, however, had to make a purchase before the trade expiration date or lose his stamps. This was an unfair situation and led to many instances of extending the dates in order to help the nonbanking retailer.

For all these reasons, though primarily because the expiration dates forced sales, expiration dates on many types of ration currency were dropped. The most significant action of this sort was taken when ration tokens were introduced in the food point programs in early 1944.⁹ Tokens could not be expired periodically and it was not possible to keep an expiring and a nonexpiring currency circulating side by side.

The amount of unspent currency varied from program to program. If 10 percent of the currency issued in a given program was unspent and unexpired, after 10 months there was a backlog of unspent currency equal to the amount validated in the current month. This backlog was like the sword of Damocles to the rationer. The probabilities were that it would never be spent, but an invalidation rumor might bring a substantial part of it flooding into the market. Or again, an attempt to reduce the ration might be nullified by merely bringing the backlog gradually into the market as consumers drew on it to maintain their rate of purchase. Since it was never possible to be sure of the behavior of this backlog the task of equating rationed demand to available physical supply of a product became increasingly difficult. At best, the backlog would build up normally and have no effect on the program; at worst it could completely ruin the program.

This problem became most acute in the food programs in 1944. Toward the end of the year the backlog amounted in total to two or more months ration for each consumer, though of course it was not

⁹ Amendment 108 to Ration Order 16, February 17, 1944. 9 F. R. 1909. Amendment 9 to Revised Ration Order 13, February 17, 1944. 9 F. R. 1908.

evenly distributed.¹⁰ It was held by farmers who rarely needed their full ration, by city dwellers who ate in restaurants, and by ordinary consumers "saving for a rainy day." When it became necessary to put more foods on the ration lists and to raise point values generally, the decision was made to cancel the backlog, because of the fear that the effect of the proposed action would be nullified by the backlog if it were not invalidated. The invalidation step was reluctantly taken. It was exceedingly unpopular, but no other course seemed possible.

Following this action expiration dates were reinstituted on food stamps, but the validity periods were set at 4 months. Thus, at the end of April the January stamps expired, but the consumer had February, March, and April stamps (if they were unspent). This system seemed to permit adequate budgeting, and the only persons having stamps when they became invalid would surely not miss them. The compromise appeared to work satisfactorily.

In shoes, expiration dates were never revived. On occasion past stamps were invalidated but only after studies had demonstrated that there were practically none left in consumers' hands and then only with advance notice. The action was taken merely to simplify the currency structure and when it had no rationing effect.

Two Practical Considerations

The administration of the ration currency system in general and the ration banking system in particular can be understood completely only with full knowledge of two very important practical considerations. Both limited the effectiveness of the Office of Price Administration and both arose from the temporary nature of the agency and from conditions in the wartime period during which it operated.

(a) *The labor shortage.*—The differential between weekly earnings in the distributive trades and in war manufacturing industries was substantial. For this reason the distributive trades, during the war, were forced to engage in a continuous and generally unsuccessful struggle to hold their labor supply. Almost without exception, retail stores, wholesalers and manufacturers subject to the various rationing programs were busier than they had ever been in their histories, and had less labor. In consequence, they complained continuously to OPA that they were unable to carry the complexities of the ration currency system and pleaded for relief and simplification. Many of the pleas were perfectly legitimate.

¹⁰ The backlog was 2.8 months in meat and in processed foods, and 2 months in sugar, in addition to the stamps validated for the month in which the survey was conducted Office of Price Administration, Twelfth Quarterly Report, p. 51.

Those at OPA who were engaged in administering the programs were quite aware of the situation. After the programs had been generally installed (by the summer of 1943) many of the changes in the details were designed to relieve the trade burdens. The two most important single changes in the currency system—the installation of ration banking and of ration tokens—were made, at least in large part, with this point in mind.

The ration banking system must also be viewed in terms of the labor shortage affecting banks. During the war the banking business expanded tremendously in all respects. The traditionally low bank wages were frozen by the wage stabilization program; not only was recruiting almost impossible but thousands of bank clerks left the banks for war industries. In spite of this, the banks were carrying at one time seven rationing programs for OPA, representing seven new currency systems for them. The implications of such a situation should be obvious.

(b) *OPA staff limitations*.—Planning for the rationing programs always took place with full knowledge that there would not be enough personnel in the OPA field offices to administer a program properly. Many changes that should have been made were ignored because of this factor. And many improvements that were actually made came too late because of lack of staff in the Washington office.

Presumably this situation was accounted for by the fact that OPA never achieved any popularity with the Congress and was unable to obtain the necessary funds for this reason. In addition, the budget problem was difficult because the economic situation changed so radically and unpredictably during the war period. Whatever the reasons, the fact remained that “field workload” was always a prime consideration in any plan, and Washington staff limitations tended to make the agency administer its programs in what came to be called a “crisis fashion”. It was not sound administration, but it was understandable under the circumstances.

The ration banking staff in Washington and in the 101 field offices never exceeded 300 persons, including stenographic and clerical help.¹¹ This staff was expected to administer a program involving approximately 15,000 banks and a million and a half depositors, an utterly impossible task. The story of the development of the program cannot be understood except in light of this situation.

¹¹ There were never more than 12 persons on the ration banking staff of the national office.

CHAPTER II

The Early Ration Currency "Flow-Back" System

The ration banking program was developed and installed because the so-called "flow-back" system could not be made to operate without it, or something similar to it. In the United States, and in every other country where rationing was undertaken, the rationing programs were made to operate by the use of the flow-back system.

In essence, the flow-back system meant that ration currency moved not only from consumers to retailers but upstream through the entire distributive system, at each stage an amount of ration currency equal to the ration currency value of the product transferred moving upstream as the product moved down. At one stage, usually the manufacturer or processor level, the currency was returned to the Office of Price Administration with an accounting to demonstrate that the amount of currency surrendered equalled the ration currency value of the product transferred during the reporting period.

In addition, each firm below the level of distribution of the reporting firms had an inventory of ration currency plus rationed goods, assigned by OPA in one of a number of ways, for which it was accountable at all times. The control at these levels was thus essentially automatic; a retailer who sold without acquiring ration currency would be unable to replace his stock, since his wholesaler could not afford to sell to him without collecting currency.

By removing the currency from the system at the manufacturer level, the real control was imposed at the point where there were fewest firms. This was most important administratively, since the number of reports to audit was relatively small.

The flow-back systems in all programs were basically the same, though they differed somewhat in detail. A description of the sugar and gasoline system will explain the matter, and will reveal the reasons for the early decision to develop the ration banking system.

The Sugar Flow-Back System

When the sugar rationing program was launched all retailers and wholesalers were required to register with the Office of Price Admin-

istration (in April 1942).¹ The details are not material to this discussion, but retailers were required to demonstrate what their sales of sugar were during a normal week. This was assumed to be the proper inventory of sugar at retail and was assigned to the retailer as his "allowable inventory." If his physical sugar inventory at the time of registration was less than this figure, OPA issued him ration currency to make up the difference. If his actual inventory was in excess of the figure, he was required to "pay" OPA the difference. From that time on he was subject to check by OPA at any time and was required to have sugar plus sugar currency equal to the established allowable inventory.

The procedure for wholesalers was identical except that the wholesale allowable inventory was two weeks' normal sales. Neither a retailer nor a wholesaler could buy or sell without surrendering or receiving ration currency exactly equal in value to the purchase or sale, and be able to account for his allowable inventory. OPA could never check all wholesalers or retailers, of course, because of a lack of manpower, but even in the absence of a check, illegal sales without currency were possible only to the extent of the allowable inventory; when that amount had been dissipated, the merchant would be unable to purchase supplies and would have put himself out of the sugar business.

Another class of merchants were subject to the sugar rationing system. Hotels, restaurants and others using sugar for consumption on the premises were known as "institutional users." Bakers, bottlers and others using sugar in the process of manufacturing another product were known as "industrial users." For purposes of this discussion they may be considered together.

These sugar users had no allowable inventories. Periodically, they were issued ration currency by OPA which they were required to budget during the allotment period. They used this currency to purchase sugar, just as the retailer or consumer did. Institutional and industrial user purchases were made at retail, at wholesale and at the refinery level.

The consumer currency and the industrial and institutional user currency moved up through the trade (as the sugar moved down) until it reached the primary producer or refiner. Since raw sugar was not rationed, the refiner had no allowable inventory and purchased the raw sugar without ration currency. Each month, the refiner submitted a report to OPA indicating the number of pounds of refined sugar he had sold in the civilian market, accompanied by sugar ration currency equal in value to the reported sales. These reports were

¹ Ration Order 3, April 20, 1942. 7 F. R. 2966.

audited and frequently checked at the refinery; since there were only a few more than a hundred refiners, this task was relatively simple.²

Thus the cycle was completed. OPA issued currency periodically, either directly as with the institutional and industrial users, or by validating stamps in the consumer's book at intervals. This currency moved through trade channels, purchasing sugar each time it changed hands, and eventually returned to OPA.

The Gasoline Flow-Back System

The gasoline system was basically similar to the sugar system. The gasoline dealer (retailer) and the "intermediate distributor" (wholesaler) registered with OPA at the beginning of the program.³ Allowable inventory in this case was established as the gallonage capacity of the gasoline storage tank on the premises. Gasoline currency was issued for the difference between the inventory on hand at the time of registration and the capacity of the tank. For the duration of rationing, the dealer was required to have ration currency plus gasoline equal to his storage tank capacity.

The "bulk consumer" of gasoline was analogous to the institutional and industrial user in sugar. The owner of a fleet of trucks having his own storage tanks, for example, was known as a bulk consumer. He was issued currency periodically by OPA which had to be budgeted over the entire allotment period.

The "licensed distributor" of gasoline was analogous to the refiner in sugar. The flow of currency stopped with him and was turned over to OPA with an accounting. Licensed distributors in gasoline in every State pay the State tax on the gasoline and by agreement between OPA and the respective States, the gasoline ration currency accompanied the tax report. The currency was checked there against the amount of gasoline reported sold before being forwarded to OPA.

The Upstream Flow of Stamps, Coupons, and Certificates

Ration currency took a variety of forms. Generally speaking, consumers used stamps or coupons, issued to them infrequently in books and validated by OPA as rapidly as the supply permitted. The sugar program made use first of the stamps in War Ration Book One. In the beginning a stamp in each consumer's book was made valid

² It may be remarked that in the meat rationing program, the primary distributor was either a packer or a farmer who did his own slaughtering. In the latter case control was exceedingly difficult. He was required to make the same sort of accounting as a sugar refiner or meat packer. There were so many of them, however, and they were so small, that many meat points were not retrieved by OPA. This was one contributing factor in the meat black market.

³ Ration Order 5A, July 9, 1942. 7 F. R. 5225.

each two weeks and each one was designated as being worth one pound. A gasoline book was issued to each automobile, with a block of coupons becoming valid periodically. In addition, extra coupons were issued to certain preferred classes.

The consumer spent his stamps by presenting the book at the time of purchase, the stamps being removable either by the retailer or by the consumer in the presence of the retailer. The average retailer, of course, received a substantial number of stamps since the value of a single stamp had to be small enough to enable customary purchases at retail to take place.

In order to avoid rationing transactions above the retail level in loose stamps which were physically unmanageable in bulk, OPA designed and provided gummed sheets to which retailers were required to affix the stamps before transferring them. The early sugar sheet contained 100 consecutively numbered boxes, so that it was self-counting. The gasoline sheet contained 50 consecutively numbered boxes. The flow of stamps and coupons from the retailer upstream, therefore, took place on gummed sheets exclusively.

Generally speaking, certificates were issued to the trade. The periodic issuance of allotments to institutional and industrial users, for example, took place on certificates, and there were various adjustments from time to time calling for the issuance of certificates. Rationing certificates moved through the system by endorsement as individual pieces of paper.

For purposes of this discussion the most significant fact about this currency was its volume. An accurate estimate of the volume of certificates is not available; it was insignificant, however, in relation to the tremendous number of gummed sheets.

In the sugar program OPA was validating one stamp per person every two weeks, or 260,000,000 each month. After these came into the retail stores they were affixed to the gummed sheets before transfer. Because retailers generally purchased sugar when they could buy it, and because many of them could not wait until a gummed sheet was filled, the average gummed sheet contained about 50 stamps rather than 100. This meant that five million sugar sheets per month were in circulation.

In gasoline the number of gummed sheets is more difficult to estimate because of the several different kinds of coupons of different values. But in May 1943 coupons worth 1,398,801,910 gallons were deposited in banks.⁴ An average of five gallons per coupon is as good an estimate as can be made, or 275,000,000 coupons per month. The average number of coupons on a gummed sheet was only about 20,

⁴ From the tabulation of the monthly statistical reports submitted by the banks to OPA.

since dealers were receiving 11 kinds of coupons, only 1 of which could be affixed to a given gummed sheet. About 13,800,000 gasoline sheets each month, then, were being used.

The figures arrived at above changed, of course, as the supply of the product or the values of coupons changed. Volume remained at a high figure, however, throughout the programs.

In the face of this volume, a method had to be available for converting the large number of small value items into a small number of large value items. It would have been physically impossible, for example, for a hundred sugar refiners to handle 5 million sugar gummed sheets plus a probable quarter million sugar certificates each month, or for OPA to audit such a mass of paper. It was necessary to diffuse the task.

The Local War Price and Rationing Board Exchange Mechanism

The early method selected to solve this problem was to permit the exchange at OPA local rationing boards (of which there were then about 5,600) of gummed sheets for a certificate. The larger retailers in sugar, and the wholesalers and the primaries in both sugar and gasoline presented to local boards their accumulation of currency and received a single certificate for the value of the currency.

In this way the stamps and coupons were taken out of circulation at the lower levels of the trade, and several certificates were converted into a single certificate at the higher levels. From the sugar refiner and the licensed gasoline distributor at the end of the flowback, OPA could receive merely one certificate representing the entire month's sales, instead of millions of gummed sheets.

This exchange mechanism at the local rationing boards had a number of defects that became increasingly apparent as the programs and planning progressed during 1942. In the first place, the boards were neither properly staffed nor properly equipped for the task. Most board personnel was volunteer, and many boards had either only one or no paid clerks. They had as a rule no place to safeguard the gummed sheets turned in to them and cancellation was a most laborious process.

The result was that inaccuracy tended to characterize the exchange process, and the currency sometimes leaked back into circulation. Merchants presenting gummed sheets for exchange were required to summarize their value, and the practice of issuing the certificates on the spot with the intent of checking the gummed sheets at a later date became general. Frequently the later date never arrived.

When the certificate was issued it never returned to the board for audit, so that it was never possible to know when a certificate had been raised or issued fraudulently. Insofar as the exchange mechanism

did not function properly, the integrity of the entire flow-back system was imperiled, and all of the above factors contributed to that peril.

Secondly, the boards had many other functions to perform, mostly of an adjudicative nature. They were always overworked and simply did not have the time to devote to what was really a clerical and banking function. Pleas from the OPA field organization for relief from this board workload became more and more fervent during 1942.

Thirdly, the system was most inconvenient for the trade. Boards were always busy so that each trip to a board meant a wait in line. Also, boards were frequently located away from the business centers, many of them in the early days in whatever rent-free place could be found. In many areas it was not possible for a merchant to get rapid and efficient service in the matter of exchanging his stamps.

Finally, the shadow of meat and processed foods rationing was ever present during 1942. It was known that either of those programs would dwarf anything yet known in terms of the volume of currency. The meat program, when later introduced, injected into circulation 16 stamps per consumer monthly, or 2 billion stamps, and the processed foods program only slightly less. The anticipation of these currency giants magnified many times the problems that were already being encountered with the board exchange mechanism. Before those programs could be handled, a change of some sort had to be effected.

CHAPTER III

The Study of Ration Banking

The Committee Structure

During the spring of 1942, energetic planning for a number of new rationing programs was going forward. The persons charged with this planning were well aware of the deficiencies of the local board exchange mechanism, and several groups were independently seeking a solution to the problem. Most interested were those planning the programs for apparel, for canned foods and for meats, in all of which the volume of ration currency would be great.

Because of the need for central planning and for a single point of contact within OPA's Rationing Department with other Federal agencies and the banking organizations, a committee was established on June 15, 1942, "to devise a plan for the exchange through banking devices or otherwise of ration coupons and certificates."¹ This committee was composed of five members, one from each of the four commodity operating divisions and the Executive Officer.

A working or subcommittee was also established, also having five members, each of whom was a subordinate of one member of the parent committee. The subcommittee developed the plans and carried on almost all the discussions with those outside the Agency, meeting almost daily for about 4 months, and meeting with the parent committee about every second week to report and receive direction. In this instance the committee form of operation was most successful, functioning energetically until it was dissolved in the fall of 1942, and replaced by the establishment of a ration banking section in the Deputy Administrator's office. At that time no interruption in the development of policy occurred since the chairman of the subcommittee became head of the section, reporting to the Executive Officer who had been chairman of the parent committee.

¹ Memorandum from Paul M. O'Leary, Deputy Administrator in Charge of Rationing, June 15, 1942.

The British Coupon Banking Plan

The British Board of Trade had announced, in the spring of 1942, that a coupon banking plan for apparel would be instituted on July 1, replacing the unsatisfactory post office exchange system that was used prior to that date. Knowledge of this program was available at OPA so that even before the formation of the committee there had been some study of the British plans. They continued to be studied carefully by the OPA committees and had a profound influence on the early American planning. For this reason an outline of the coupon banking system in Great Britain is in order.

The British apparel rationing program was a point system. Stamps in the consumer's ration book were validated periodically and apparel items were assigned point prices. When the stamps were received by the retailer, he deposited them in his bank where the appropriate number of points were credited to him on a regular ledger card bearing his name.

When the retailer purchased apparel from a wholesaler, he made use of what was called a "transfer voucher." This was a three-part form, containing a stub attached by perforation on either side. All three parts were filled out by the merchant, the two stubs containing the date, the drawer's name, and amount, and the main portion the payee's name and the drawer's signature in addition.

The left-hand stub was detached by the drawer as his record of the debit, the right-hand stub was detached by the bank and used to enter the debit against the drawer. The central portion was the actual check, and was certified by the bank and then forwarded by the drawer to the payee. The banks were authorized to require the drawer to leave the transfer voucher at the bank for 24 hours, presumably to avoid tie-ups at teller's windows while the balance was verified with the bookkeeper and the voucher was certified, but little use was made of this privilege.

When the transfer voucher was deposited by the payee in his own bank, it was forwarded to the Board of Trade by the bank of deposit, and not cleared to the drawee bank. The Board of Trade made a practice of returning to the drawee banks a small number of transfer vouchers as a spot check against raises and forgeries, but never considered it necessary to institute a clearance system.²

The First OPA Ration Banking Plan

While there were many subsequent modifications, the OPA subcommittee was in agreement by July 1942 on the basic outline of a

² The German ration banking system was also studied briefly—it was so complex, however, that it offered little help as a model.

ration banking program. The diverse, dual banking system in America would make the problem of supervision more difficult here than in England³ and there was some discussion as to whether to qualify all banks, or all national banks. It was finally decided to make eligible all banks operating under State or Federal laws carrying commercial checking accounts. The controlling factor in this decision was a determination to disturb as little as possible existing bank-customer relationships.

The early plan proposed to have all those who opened ration bank accounts operate exclusively through these accounts; that is, the transfer of stamps, coupons or certificates was to be forbidden. They had to be deposited. Behind this decision was the desire to make the merchant's ledger reflect all his rationing transactions as an enforcement aid.

The British transfer voucher was copied in the early OPA plan, though, principally because banks were less accessible in this country, it was not planned to force any merchant to wait 24 hours to have his voucher certified. Unlike the British program, OPA planned to have the vouchers returned by the bank of deposit to the drawee bank through regular clearance channels, though the details were not thought through at that time. Clearance was felt to be essential because, without it, it would be far too easy for a teller to certify a voucher and destroy the debit stub so that no debit would ever be entered against the drawer.

It was assumed that transfer vouchers and deposit slips would have to be printed, but that no new ledger sheets or other internal forms would be needed. There was no need for standardizing these latter forms; regular commercial banking forms could be used for ration banking also.

Some Basic Unresolved Problems

Although it was not fully realized at the time, the early plan was far from complete. Leaving aside, however, the many details that had to be filled in later, there were several problems that loomed large even at that early date, some of which were not solved for many months. The solutions to these problems will be described in later pages; here their nature only will be indicated.

(a) *Certification and clearance.*—The plan outlined above called for the certification of transfer vouchers, which later came to be called ration checks, and their clearance to the drawee bank. . . Actually, the

³ In this connection it is interesting that the following sentence appears in an early memorandum on British rationing problems (May 22, 1942) by the author: "Coupon banking might work here [i. e., in the U. S.], but the nature of our banking system leads one to make mental reservations."

committee had not reached a final decision on this point, which was the most thoroughly discussed of all the early ration banking problems.

In the matter of handling checks, three alternatives were open. First, checks could be certified by the drawee bank and returned in clearance to it for verification of the debit. Secondly, checks could be issued by the drawer, not certified by the bank, and cleared after deposit. This was the method ultimately adopted. Thirdly, the British example could be followed whereby checks were certified but not cleared. Actually, the third alternative was never seriously considered, so that the discussion centered around whether to have ration checks certified or not, and how to clear them.

The advantage in requiring that all checks be certified, of course, lay in the fact that it would avoid any possibility of checks being drawn against insufficient or nonexistent funds. There was no way of knowing to what extent such a practice would develop, though it was expected that there would be a certain amount of it.

Three points argued against the requirement of universal certification. In the first place, while very little was known about bank costs at the time, it was clear that it would be more costly to have checks certified than not. Secondly, and much more important at the time, deliveries of rationed goods were most irregular and uncertain. A merchant was never sure when he would receive a delivery or how much it would amount to. Most of the early rationing regulations required that ration currency be paid at or before delivery. It would be almost impossible for the merchant to have a certified check ready, in light of the foregoing facts, when the delivery arrived. Prior payment might have solved this problem, but many merchants were unable to afford prior ration payment, and even if they were, there was no guarantee that complete delivery would or could be made on any given order.

Finally, many banks in war communities found their volume of business tremendously expanded. In many banks, lobbies were jammed during the entire business day. It was questionable whether such banks would be able to carry a rationing load that entailed a substantial number of check certifications.

The question of how to clear checks was not faced squarely in the early days, because of the fact that no members of the OPA committee or subcommittee had technical banking knowledge. It was assumed that local clearing houses and the Federal Reserve banks would be used, but such problems as the settlement of interbank balances were not then considered.

(b) *Trade eligibility for ration banking.*—It was realized that for a number of reasons it would not be practicable to require all retailers

to have and use ration bank accounts. In the first place, this would have imposed too great a strain on the commercial banking system when all the rationing programs were installed. In the second place, many of the small retailers were not accessible to banks and were unfamiliar with banking procedures so that it would have been difficult both for them and the banks to learn a new way of doing business. Besides, they did not receive enough currency to need the use of banking facilities, and OPA had little to gain, enforcement-wise, by forcing them into banking.

On the other hand, OPA generally considered it advantageous to have as many rationing transactions as possible go through the banks. From an enforcement point of view, OPA felt its task would become easier if the rationing activities of a merchant were reflected on a ledger sheet. In this sense, it was to OPA's interest to have as many retailers as possible open bank accounts.

The problem of where to establish this "cut-off" line was considered many times and was answered tentatively only shortly before the program was launched nationally in January 1943. Actually the solution then reached was not the proper one, as experience soon indicated, and two or three rather basic changes had to be made before the matter was settled.

By and large this was a food problem only. In gasoline, an early decision was reached to require distributors to have bank accounts but not to permit retailers to participate. This decision was reached because it was so difficult for the average retail dealer to get to a bank, because the method of auditing a retailer required that he keep his coupons on the premises, and to some extent because those in OPA charged with administering the gasoline program were not particularly sympathetic toward the idea of ration banking.

(c) *The cost of ration banking.*—The matter of cost of a ration banking program was deferred during the early planning days. It was realized that the banks would have to be reimbursed in some fashion but this problem was almost completely unexplored by the OPA committee; it was hoped that help could be obtained from one of the Federal banking agencies on this score, or from organized banking.

The OPA committee convinced itself early that, whatever the cost might turn out to be, it would be less than any alternative program that could be evolved. This reasoning was based on the assumption that bank employees and machines were idle a part of the time and could be utilized for ration banking, and that only in the case of the very largest banks would it be necessary for additional space or equipment to be procured. In other words, it seemed reasonable to assume that in most banks ration banking could be done in spare time in spare

space on spare equipment. Supervision was already there and very few new techniques would have to be learned. By and large this turned out to be a reasonable assumption.

The committee was also impressed with the fact that it seemed forbiddingly costly even to think of expanding the local rationing boards to handle the exchange mechanism. Quite aside from any non-labor cost, it would have cost in excess of \$11,000,000 per year to put only one \$2,000 clerk in each of the 5,600 boards, and one clerk per board would scarcely have scratched the surface of the problem.

For these reasons, the committee felt that it was more essential to get the plan perfected than to worry about its cost. They were convinced that, whatever the cost might eventually turn out to be, no less expensive alternative method could be developed. If this was the case, the money would be found when the time came.

Discussions Outside the Agency

By the latter part of June the committee felt that its plans had progressed far enough so that more expert counsel should be sought. The committee sought the answers to three specific questions:

- (1) Was the idea in general feasible?
- (2) Should ration checks be certified or not?
- (3) What would the plan cost OPA?

These questions were put first to officials of the Federal Deposit Insurance Corporation on June 30, 1942. The answer to the first question was in the affirmative. The answer to the second was equivocal: from the banking point of view either method could be handled, although certification would undoubtedly be more expensive. OPA should decide whether the rationing program needed certification; if so, the banks would probably be able to handle it. To the third question no answer could be given by the corporation but the suggestion was made that the American Bankers Association could probably give assistance on this point.

On July 3 the matter was discussed with officials of the Federal Reserve System. Here again officials felt that the plan was feasible and could be installed. On the matter of certification they disagreed among themselves as to the proper course of action for OPA to follow, though agreeing that certification would be more costly. Some of them also made the point that the labor situation in banks was going to become stringent and that a certification requirement might prove too burdensome to the banks. With respect to cost, they also suggested the American Bankers Association as the best source of information, and could offer nothing concrete themselves.

One other source of early assistance warrants discussion. The Superintendent of Banks of the State of New York recommended to the

OPA committee that the plan be submitted for study and comment to the comptroller of the Manufacturers Trust Co., in New York City. This suggestion was followed. In August a careful and exhaustive report was submitted on the OPA plan, stating, as a general conclusion: "After carefully studying the proposed plan I have come to the conclusion that effective control of the rationed commodities can best be accomplished by having the national and state chartered commercial banks act as the clearing agency."⁴

This report endorsed the OPA plan as sound with one exception. It rather convincingly demonstrated that the requirement that ration checks be certified was impractical and expensive, and that very little would be lost to the rationing programs if it were dropped. The significance of the report was two-fold. In the first place, it convinced OPA that the idea of certification should be abandoned. Secondly, it laid to rest any fears that OPA may have had as to the general feasibility of the ration banking plan. From the time this report was received, OPA stopped attempting to confirm its own judgment that the proposal was sound and turned its efforts toward the installation of an actual experiment.

The American Bankers Association

A large share of credit is due the American Bankers Association for its assistance and advice in the administration of the ration banking program. During the summer of 1942, however, there were a number of misunderstandings between the Association and OPA, and very little constructive assistance was forthcoming until the appointment, on September 30, of a duly constituted ration banking committee to act for the Association.

The first meeting between OPA and ABA was held on July 9, 1942, having been arranged by the Federal Deposit Insurance Corporation. It was exploratory only. Tentatively, the Association members expressed the feeling that the plan might be made to work, that it would be a serious mistake to incorporate a check certification feature, and that the plan should be submitted to a group of operating bankers for their ideas as to feasibility and cost. It was agreed that for this purpose additional meetings would be arranged by ABA, following the preparation of a more specific and extensive description of the plan by OPA.⁵

These additional meetings were not held. On several occasions during July and August, meetings were scheduled but cancelled by ABA. At one time the Association indicated that counterproposals would be formulated, but this was not done. The two groups did not meet dur-

⁴ Charles C. Clough, "Review of Proposed Stamp Banking Plan of Rationed Commodities with Recommendations." No date. (A report to the Office of Price Administration).

⁵ Memorandum, W. C. Dickson to J. A. Kershaw, "Bank Plan," July 10, 1942.

ing the summer, with the unfortunate result that OPA did not receive the constructive criticism which it hoped to obtain through the Association during the planning stage of the program.

This situation was happily terminated by the appointment of a Ration Banking Committee by the Association in September⁶ and the appointment of a subcommittee instructed to offer constructive criticism of the ration banking experiment in New York State. This subcommittee worked hard and well, and the full committee also gave generously of its time and counsel.

Two Alternative Proposals

During September two alternative proposals were vigorously proposed by a New York banker. Both arose from his fear that the plan as proposed by OPA would prove too burdensome for the banks.

The first proposed that, in the food programs, only wholesalers and processors would have ration bank accounts. To permit the boards to be relieved of the burden of exchanging stamps for certificates for the large retailers, a "redemption clerk" would go from place to place carrying "coupon vouchers," or large-denomination stamps, with which he would redeem the retailers' stamps and thus reduce the volume of currency that passed upstream.

OPA agreed that it would be necessary to devise a plan to restrict eligibility for accounts to the larger retailers, but could not agree that all retailers should or could be eliminated. Many supermarkets and chain retailers handle far more volume than some wholesalers. Furthermore, OPA felt that the redemption clerk idea would be administratively impossible to handle, that the redemption clerk would not be able to be in the proper places at the proper times, and that retailers would be severely handicapped by not having the proper denominations of coupon vouchers when a delivery truck arrived. It seemed much less complicated to have the redemption clerk's functions handled by the banks. The idea, therefore, was rejected.

On September 15, a second alternative was proposed by the same source. The redemption clerk had been discarded but accounts were still to be limited to the wholesale level and above, although this was not basic to the proposal. OPA was to establish one or a few central stamp accounting agencies. When the stamps were ready to be deposited by the wholesaler, he was to mail them to this accounting agency in a box supplied by OPA, the box to be mailed back to him for reuse.

At the same time, he was to fill out a multipart form listing what he had forwarded to OPA. Two parts of this form were deposited with the bank, where one was retained as the credit ticket and the

⁶ Letter, W. L. Hemingway, President, American Bankers Association, to Leon Henderson, Administrator, OPA, September 30, 1942.

other stamped by the bank and forwarded to the accounting agency where it would be compared with the actual shipment. If there any errors, correction could be made by advice to the bank and an adjusting entry there.

This proposal was particularly interesting in view of the later establishment by OPA of the verification centers, which undertook some (though by no means all) of the proposed central accounting agency's functions. It was rejected at the time because of a combination of circumstances. First, the establishment of the central accounting agencies, in addition to the time involved, would have necessitated procurement of considerable amounts of space, equipment and personnel. Since OPA was a temporary agency, it appeared wise to make use of existing facilities rather than to create new ones, unless it was demonstrated to be actually necessary.

Secondly, there appeared to be a considerable advantage of simplicity in the OPA proposal, in that it provided for a procedure very similar to normal business practices. Ration currency was to be deposited just as dollar currency was; businessmen could familiarize themselves rapidly and easily with such a system.

Finally, the OPA plan was already at press in preparation for the experiment, for which all arrangements had been completed. To change would have meant a delay of a number of weeks at best, and the rationing of canned foods and meats was being held up until the ration banking plan was installed. OPA would have been reluctant to hold up its program, which it felt would work satisfactorily, even if the alternative had appeared to be a better plan.

CHAPTER IV

The Experiment in Ration Banking

The memorandum from the Deputy Administrator in charge of Rationing (June 15, 1942) establishing the ration banking committee had instructed the committee, if it proved desirable, to "develop experimental plans to be instituted in one or more cities presenting ideal circumstances." On August 9, 1942, the committee addressed a memorandum to the Deputy Administrator recommending that a test be undertaken and requesting authority to proceed with the arrangements.¹

It was felt that an experiment would serve three purposes. In the first place, while there was general agreement that the idea was basically sound, it seemed wise to put it to an actual test under controlled conditions so that adjustments could be made before the Nation-wide installation took place. This would assure a smoother installation.

In the second place, OPA had no legal authority to compel any bank to participate in the program. Except for patriotic persuasion, the participation of every bank would be completely voluntary, and it was essential that fairly complete geographical coverage be obtained when the national plan was launched. Bank relations, therefore, were considerably more important in this than were industry relations in other rationing programs. An appeal to the Nation's banks could be made more soundly if OPA could show that the program had actually worked when tried. In addition, it was anticipated (correctly) that many bankers would visit the scene of the test and that banking publications would follow its course carefully; the resultant publicity would be quite valuable when the general appeal was made.

Finally, it had been impossible for OPA to obtain even an approximation of what ration banking might cost. The experiment would offer an opportunity for an actual cost study of the program while in operation so that when the reimbursement schedule was announced at a later date, it would be something more than a guess. Since the reimbursement schedule was naturally considered by the banks to be

¹ Memorandum, The Committee on Ration Banking to Paul M. O'Leary, "The Proposed Ration Banking Plan," August 9, 1942.

one of the most important parts of the contract, this fact was rather important.

Selection of the Test Area

After considerable study OPA decided that the qualifications necessary for a representative test were found in several counties in New York State, including the cities of Albany, Troy, and Schenectady and the immediately surrounding territory. In addition to the fact that the area was accessible to Washington, was easy to supervise, had an OPA district office, and was in the gasoline rationed area, it contained other conditions that appeared to make it a wise selection.

A problem was bound to arise if many transactions took place between merchants inside the test area and those outside. The selected area seemed to minimize this problem, since it was largely self-contained, being 145 miles from New York City, 78 miles from Utica and 70 miles from Springfield, Mass., the nearest sizeable trading areas.

Within the area were to be found about a half million people, including a number of foreign groups, living in 3 large cities, a number of small towns and some areas that were genuinely rural. These people were served by approximately 2,200 retail grocery outlets, 30 wholesalers of sugar and perhaps 50 licensed and intermediate distributors of gasoline. (Sugar and gasoline were the only 2 commodities under coupon rationing at the time.)

The area contained 18 head banking offices and 15 branch offices. The most extensive system had four branches. The largest bank had total resources of \$150,000,000, the smallest less than a million. The city of Albany had a local clearing house while the other two cities did not. The number of grocery stores per banking office was 71, which was somewhat higher than the ratio for the United States, but this was considered an advantage rather than the reverse. All in all, the area seemed better suited as a proving ground than any other that could be found.

The Trade Education Program

The tentative date set for the beginning of the program was October 26, 1942 (this date was met) and the first of the OPA group arrived in Albany on September 15 to open the office. This group made arrangements for space with schools, chambers of commerce and other trade groups for holding trade meetings. Mailing lists were obtained and meetings organized at which the merchants were instructed in the new program. These meetings were featured by the showing of a sound slide film, especially prepared for the purpose.

Extensive use was made of wholesalers to carry literature and

instruction to retailers. Because the wholesalers had most to gain from the program (it would simplify rationing considerably for them), they were extremely cooperative and later surveys showed that the wholesalers' efforts had been the most effective single method of disseminating information to retailers. Direct mailings were also made to all merchants in the area, principal reliance being placed on a small question-and-answer flier.

The total OPA staff in Albany never numbered more than ten, but because of a rather considerable trade and press interest in the fact that the locality was being used as a "guinea pig" for the whole Nation, the trade education was generally quite successful. The program for educating the trade prior to the institution of Nation-wide ration banking was patterned after the New York experience, but it was much less intensive in coverage.

The Bank Education Program

OPA had decided that it would be advantageous to have the banks take part in the test without remuneration. The bank education program, therefore, had two parts, the first to persuade the local bankers to take part at all, the second to teach them what they were to do.

The first of these two problems was handled by direct approach (on September 23) to all the 18 presidents of the local banks. In this, valuable help was rendered by the New York State Bankers Association, the Chief National Bank Examiner of the Second Federal Reserve District and the New York State Superintendent of Banks. In a series of meetings, held on September 23, the local bankers expressed a willingness to take part in the program.²

OPA then turned to the problem of instructing the operating personnel of the banks in their functions and responsibilities under the program. This was done by a series of meetings during which at least one operating official of every bank in the area was intensively instructed in the ration banking operation and given written material for further study and for assisting him in instructing his tellers, bookkeepers, proof clerks and other affected employees. In this educational effort, considerable assistance was rendered by the subcommittee of bankers appointed by the American Bankers Association to study the experiment and assist OPA. The committee had six members, three from local banks, and three from outside.

As with the trade, the bank education program for the experiment was far more intensive than later proved to be feasible for the 15,000 banks of the Nation. In this sense the test was not truly representative.

² Memorandum, Joseph A. Kershaw to Louis J. Kroeger, "Conferences with Bankers in Albany, September 23 to 28, 1942," undated.

It was felt, however, that other banks would have the benefit of the publicity from the test, whereas the entire idea was completely new to the bankers in the test area.

The Ration Banking Plan as Installed in New York State

(a) *The nondepositor*.—The ration banking program did not include every merchant in the gasoline and sugar rationing systems. Those who did not open accounts were not affected at all by the experiment. If retailers, they continued to collect coupons from consumers, paste them on the gummed sheets and transfer them to suppliers when making a purchase. All gasoline dealers (retailers) were in this group since they were not permitted to open accounts. Institutional and industrial users of sugar were permitted but not required to open accounts, and most of them elected not to do so.

(b) *The depositor*.—All retailers and wholesalers of sugar, all intermediate and licensed distributors of gasoline, and those institutional and industrial users of sugar who wished to, opened accounts.³ This was done by filling out, in duplicate, a signature card which was also an application for an account. This was left with the bank, with or without an initial deposit, and the account was considered opened. If the depositor had a dollar bank account he was required to open his ration account in the same bank. This was done so that the burden on the banks would be most equitably distributed and to avoid upsetting competitive relationships among banks.

After opening an account the merchant was not permitted to transfer ration currency directly to a supplier; all transactions had to be by ration check. A deposit was made by listing and totaling the items on a deposit slip, made out in duplicate, and by presenting the items and deposit slips to the bank. The duplicate was stamped and initialed by the bank and returned to the depositor for his permanent record.

Having established a credit in his account, the depositor could write a ration check or checks up to the value of his credit balance whenever making a purchase. The ration check closely resembled an ordinary check, except that it was made out for so many pounds of sugar or gallons of gasoline. It was also nontransferrable, so that it had to be deposited by the payee after endorsement. This nontransferrability was presumed to be necessary for OPA's enforcement purposes so that any check could be traced easily. No problem was created by this feature since it was very unusual for a nondepositor to receive a check. On the infrequent occasions when this occurred—for example, a refund by a wholesaler to a nondepositor institutional user—

³ Amendment 20 to Ration Order 3, October 26, 1942. 7 F. R. 8710. Amendment 14 to Ration Order 5A, October 26, 1942. 7 F. R. 8708.

the nondepositor took the check to a local board, endorsed it and received a certificate for it. The board then sent it directly to the drawee bank.

Finally, the ration check was valid only for 15 days after its date of issuance. If a check was kept beyond that length of time it had to be returned for a new one, to the drawer. This provision, which quickly proved to be impractical, reflected the general feeling in the early days of rationing that ration currency should be valid for a brief period only, and represented also an effort to keep the check "float" at as low a figure as possible.

The "in-and-out" problem was never serious during the test since not many such transactions took place. When a supplier inside the area sold outside he merely deposited the currency he collected. When a buyer inside with a ration bank account bought from outside, he wrote a check for the proper amount, exchanged it at the local board for a certificate which he forwarded to the supplier. This was necessary because the ration check was not valid outside the experimental area.

Checks under discussion to this point were not required or permitted to be certified. In two instances, however, certified checks were used. Whenever a merchant owed ration currency to OPA (for an inventory adjustment or similar reason) he wrote a check in the proper amount payable to OPA and had it certified by his bank before surrendering it to OPA. The debit was made immediately by the bank and the check retained permanently by the OPA office as part of the merchant's record.

The second case was that of the licensed distributor in gasoline. Each month a report to OPA was made by each licensed distributor showing the number of gallons of gasoline sold in the civilian market in the previous month. Accompanying this report was a certified ration check for the proper amount. Again the check was retained as a part of the permanent record. Sugar refiners would have operated similarly had there been any in the area.

The requirements and options outlined above for the depositors were incorporated in amendments to the sugar and gasoline rationing regulations, restricted to the trial area, of course, so that they had the force of law. Because of the willingness of the trade to conform, and because of the experimental nature of the project, little effort was made to enforce the requirements. Aside from a tendency toward lateness in opening accounts on the part of some, there was excellent compliance from the trade.

(c) *The banks.*—It has already been pointed out that the banks of the area took part without remuneration. For two reasons OPA was anxious for this situation to prevail. In the first place, there was not

the slightest idea of what a proper schedule of reimbursement should be. In the second place, a financial arrangement would have required a contract stipulating what was to be done by the banks in return for the reimbursement paid. OPA was anxious to avoid this, since it was necessary for the arrangement to be completely flexible so that indicated changes could be made rapidly and without regard to possible effects on a contract.

As a result, there was no formal arrangement whatever between OPA and the 18 banks. In effect, the banks concluded a gentlemen's agreement with OPA to do whatever OPA decided they should do. The plan was carefully outlined to them at the outset, of course, but neither they nor OPA knew then what changes might be called for. From time to time during the course of the test, OPA sent typewritten memoranda to the banks altering instructions; occasionally this was done by telephone. Those instructions were always very informal and they were always followed. It is probable that this type of relationship between a Government agency and a group of private corporations was unique. The important thing was that it worked, and that it permitted the trial run to be an experiment in the truest sense of the word.

The banks received in deposits sugar stamps and gasoline coupons attached to gummed sheets, sugar and gasoline certificates, and ration checks for the two programs. Most of the banks received ration deposits at any teller's window although a few labeled one or a few windows as the ration depositories. The deposits were accepted "subject to count," except for very small deposits, and the duplicate deposit slip stamped and initialed and returned to the customer without delay.

The items and the deposit slip were proved in the bank, by a bookkeeper in the smaller banks, by a proof clerk in the larger institutions. This process consisted of verifying the items themselves for value and validity, and checking the listing and addition on the deposit ticket. This was the most difficult and time-consuming of all the ration banking tasks; there were several different kinds of stamps and coupons with different values, and every item, even the checks, had to be checked to make sure it had not expired. In addition, checks and certificates had to be properly endorsed to be valid.

The proof of the certificates, with their endorsements and expiration dates, proved particularly tedious. One of the early reports from the OPA office in Albany contains this statement: "On a deposit of about 8,000 pounds of sugar in one of the banks, the clerk was able to count sugar stamp cards [gummed sheets] totaling 2,500 pounds in about two minutes, and it required an hour to analyze and verify 135 or so certificates totaling 1,500 pounds."⁴

⁴ "Progress Report on Ration Banking from October 28 to November 3, 1942." Undated. The additional 4,000 pounds in the deposit are presumably accounted for by ration checks.

After the deposit had been proved (the depositor was notified if an error was detected), the deposit ticket was sent to the bookkeeper for the posting of the credit. No special ledger sheets were used for this purpose, and no special machines. Each bank used its regular posting process, merely labeling the ledger sheet "sugar" or "gasoline". The regular procedure for rendering statements was also followed.

The stamps, coupons, and certificates were stored in a safe place pending disposition, to be described presently. Any checks written on the bank of deposit (house checks) were debited against the drawer, cancelled and filed until the statement period arrived. Checks on other banks were cleared to the drawee banks.

The method of clearing checks was the least satisfactory part of the experimental program. It has already been pointed out that in OPA there was insufficient appreciation of the problem of clearing checks when the plan was being studied. The clearance procedure, in fact, was not evolved until just a few days before the experiment was launched, and it was realized fully that it was a makeshift device only.

The checks were actually cleared either by direct sending between banks, or through the local clearing house in Albany. There was also some use of correspondent banks. There were no accounts maintained by each bank for the others, no receipting device, and of course no interbank balances. The only control used was that provided by the use of pre-serially numbered checks by the depositors.

Each check book issued contained checks prenumbered from 1 to 50. They were so arranged that they had to be used in sequence, and the depositor was instructed to notify his bank if any checks were lost, spoiled or not used after issuance. The banks were under instruction to watch the serial numbers as the checks were presented for payment and filed. If a number was missing after a reasonable period of time the bank was to ascertain from the depositor what might have happened to the missing voucher.

If no adequate explanation could be offered the check was traced, with the help of OPA if necessary, and appropriate adjusting entries made. In any event, the depositor filled out what was called a "missing voucher statement" which was filed by the bank in place of the check.

Because of the small number of banks involved, because debit activity in both sugar and gasoline was light, and because the 15-day time limit on checks kept the float down, the serial number control worked satisfactorily during the test. For many reasons, however, it would have been too cumbersome for use on a national scale. The clearance problem was given a good deal of thought before the solu-

tion for the national program was found, a solution, incidentally, far different from that just described. It will be discussed in the next chapter.

Upon the receipt of checks through clearance or in deposit, the drawee bank entered the debits and canceled and filed the checks in the customary manner. Both credits and debits, of course, were carried in terms of gallons and pounds, but most of the banks did not even remove the dollar sign from their posting machines. Actually, the bookkeepers scarcely knew that ration banking existed since their rationing work was so similar to their regular work—no banks in the New York area had enough rationing activity to use the time of a bookkeeper or a posting machine exclusively on that work.

There was, however, one outstanding difference that assumed very great importance in the program at a later date. Whenever a check was received by a drawee bank for an amount greater than the balance on the ledger, the bank was instructed to enter the debit notwithstanding the fact that this entry would create a red or negative balance. The bank was then to inform OPA that an overdraft had been created in the account. Subsequent debits and credits were also to be entered until or unless OPA gave specific instructions to the contrary with respect to that particular account.

There were three reasons for this highly significant provision. In the first place, the banks had initially expressed a desire to avoid a provision requiring the return of "n. g." checks because they feared it might lead to suits against them because of errors. They were anticipating a deterioration in their labor situation as the war progressed, and expected that this would result in their making more and more errors. When a check is returned erroneously for insufficient funds, there is always the possibility that the bank may be sued by the drawer for defamation of credit.

Secondly, OPA felt that an overdraft would be a rather serious matter, since it would mean that a merchant had received more than his share of a scarce commodity. If the check was returned through the banks to the payee, the entire matter might be settled without OPA's knowledge, though certainly not without having disturbed the distributive system. OPA was unwilling to have this take place.

Thirdly, if the supplier was required to assume responsibility for the validity of checks offered to him, he would be reluctant to sell in many cases without payment sufficiently in advance to assure him that the check would not be returned. But under rationing no supplier could know a week in advance what delivery he would be able to make. Had it been necessary for the supplier to assume this responsibility for checks received, distribution would have been slowed or impaired.

During the experiment only one or two accounts were overdrawn,

and these were the result of an oversight on the part of the depositor. The overdraft problem, however, developed later into the most serious problem of the program. It will be analyzed more fully in a later chapter.

The description of the bank operation in the test period has omitted two functions, closely tied together. The entire internal operation was controlled by what came to be called the "proof sheet." Devised by several of the bankers in the New York area, it was used most successfully there and adopted almost without change in the national program. The proof sheet was also the source of information for the periodic bank report to OPA and was devised with the idea in mind of simplifying the compilation of the report.

The proof sheet was the general ledger of ration banking. It controlled all other entries made in every part of the flow of ration currency into and out of the bank. Deposits were posted in bulk as credits, whereas the offsetting debit entries were the various items making up the deposit. The debit side of the proof sheet was a sort of spread sheet on which the different kinds of stamps, coupons, and certificates were listed.

The report, made semimonthly during the experiment, was merely a total of each of the columns on the debit side of the proof sheet since the last report. This told OPA exactly how many sugar stamps had been deposited, and so on. These statistics were fundamental to the administration of the rationing programs, since they were the only indication of the rate of consumer expenditure of ration currency. Since the figures could be so easily drawn off the proof sheets (there had to be a proof sheet for each program), the compilation never became any considerable burden for a bank that maintained proper controls.

The items received by a bank were stamps, coupons, certificates and checks. The checks, of course, were cleared and cancelled and eventually returned to the drawer with his statement. The certificates were listed on an adding machine tape and forwarded periodically to the OPA office. The plan was to check them there for raises or alterations and to return a few to the issuing local board for comparison with the board's file copy as a spot check. This never proved feasible, since the workload was too great and the board filing systems were not adequate.

The stamps and coupons were to be retained by the bank in a secure place, preferably the vault, and then completely destroyed, usually by fire, under responsible supervision. Destruction was to take place weekly. To many banks, of course, currency destruction was not a new process, since most of the larger ones have bonds or other securities to destroy from time to time. The procedure immediately became

a problem to some of the smaller banks, however, particularly those with oil furnaces.

This situation foreshadowed an annoying problem that developed later and persisted until the destruction procedure was eliminated. Some banks pooled their currency and took turns sending an officer with a truck to supervise the destruction. A few of the very large banks were able to interest shredding companies to cart it away and have it chewed and digested by cutters, beaters, and acid baths. But for most of the banks one unsatisfactory method or another was devised, usually burning in a furnace. Since the gummed sheets burned very slowly in an ordinary fire, it was tedious and time consuming for the supervising officer.

Cost

It will be recalled that one of the purposes of conducting the experiment was to determine what the cost of the project would be and what form a reimbursement schedule should take. Originally, it had been hoped that each bank might be able to keep records on the cost of operating the program and that no other survey would be required. This proved impossible, however, because of the many divergent ideas of cost accounting in banks.

It was eventually decided to hire a firm of bank accountants to make studies of the program in operation, and to recommend the basis for reimbursing the banks, as well as the amount. For several weeks several accountants worked in 15 of the banks accumulating data and preparing recommendations. As a matter of incidental interest, OPA was careful to select a firm of accountants which enjoyed an excellent reputation for fairness and accuracy among the banks; it was felt that this fact would be important when the schedule was later presented to the banks.

Quantitative Description of the Experiment ⁵

Ration accounts were opened in the area's 18 commercial banks and 15 branches beginning October 26, 1942. At the end of 6 weeks (generally considered the duration of the experiment, though ration banking was never suspended in the area) 38 gasoline accounts had been opened. Three hundred eighteen deposits had been made in these accounts containing 54,381 items. (An item is defined as a check, a certificate or a gummed sheet containing one or more coupons.)

The smaller number of accounts in gasoline resulted from the exclusion of retailers from the program. It is significant to note, however, the very large size of each deposit on the average. This situation con-

⁵ The figures used in this section were obtained from the banks, tabulated and photostated. The tabulation is entitled "Summary of Daily Reports of Operations—Weekly Totals from October 28, 1942."

tinued to characterize the gasoline program and frequently made for difficulty since the bank burden was not well distributed. For example, one of the small banks in Schenectady had the account of the largest gasoline distributor in the area. It was necessary for the two to make an arrangement whereby the deposit was made at an appointed hour each week (after banking hours) by truck at a rear entrance. The proof of this deposit required several days in the bank.

In sugar there were more and smaller accounts. Six weeks after opening date, 1,559 accounts were on the banks' books, 3,191 deposits had been made containing 22,181 items. Two thousand seven hundred and seven ration checks had been written during the period. Deposits in the amount of 5,279,189 pounds had been made and withdrawals had amounted to 3,518,969 pounds, the difference being the balance on the ledger sheets of all the depositors.

These figures indicated that the bank problem in the future would center generally on the deposit proof function. This was the largest and most difficult task. The activity figures on posting and check clearings demonstrated pretty clearly that these functions could be handled in stride by most banks. Later experience bore out this diagnosis.

Results of the Experiment

With the exception of the check clearance problem, OPA came to the early conclusion that the plan was basically sound. After the first 2 or 3 weeks of operation emphasis shifted from the question of whether the program could be installed nationally to how soon this could be done. This was rather important in view of the fact that OPA was under great pressure to get a canned foods and a meat and fats rationing program launched; neither could be operated without the ration banking plan or some substitute for it.

One of the most profitable lessons learned from the experiment was that the trade was not following the regulations as carefully as had been assumed. For example, the endorsement requirements on certificates were very generally ignored, and this made the bank's job more difficult since the return of invalid items and adjustment of the deposit ticket were expensive to the bank and interrupted the routine.⁶ Again, many merchants were ignoring the consecutive numbering on the gummed sheets and affixing their stamps haphazardly, thus destroying the self-counting feature of the sheets. These and similar

⁶ This situation led to the elimination of the use of certificates for home canning use in the sugar program and the substitution of fixed value coupons for them. Another discovery made, during the experiment, was that duplicate certificates were sometimes being used to buy sugar. As a result OPA stopped issuing sugar certificates in duplicate. Originally, the duplicate had been intended to be retained by the recipient as a record.

practices pointed to the need for a more intensive trade education program.

Several changes in the banking of plan *per se* were made as a result of the experiment. Some of them were quite minor, such as reducing the size of the check, rearranging the lay-out of the signature card, and widening the columns on the deposit ticket. It was very helpful, however, to discover such things and make appropriate changes before rather than after the Nation-wide installation.

One of the most important changes made was the elimination of the expiration dates on the ration checks. This feature had been unwieldy for the banks and, on further study, appeared to serve no useful purpose.

In general the experiment was most successful. Considerable publicity, particularly in banking publications, had been received and many visitors had observed the program. As a result, there was much greater familiarity with the entire idea than would otherwise have been possible. OPA was able to move toward the installation of the program nationally with confidence in its success.

Four major problems remained. First, a satisfactory method for clearing checks had to be evolved. Second, a determination had to be made as to which retailers in food would be permitted to open accounts. Third, a reimbursement schedule had to be devised. And fourth, a contractual arrangement of some sort had to be worked out. Subsequent chapters will consider these problems at some length.

CHAPTER V

The Installation of Ration Banking

Separate treatment in later chapters will be afforded two of the four problems enumerated at the conclusion of the last chapter. The method of clearing checks and the determination of trade eligibility for food ration banking may be considered at this point.

Settling the Check Clearance Problem

It has been noted previously that there was an early realization that the check clearance procedure adopted for the New York experiment would not be satisfactory for the national program. As soon as the experiment had been fairly launched, work began to go forward on this problem. Because of the important part in any procedure to be played by the Federal Reserve System, the OPA planning was carried on in close cooperation with officials of the System.

It was decided at an early date that both member and nonmember banks would clear all except "local" checks through the Federal Reserve banks and branches. Local ration checks would be handled by clearing houses, where they existed, and where there was no clearing house or other local clearing facility, through the Federal Reserve bank. Although large banks customarily handle a large number of dollar transit items for their correspondent banks, it was decided not to permit this practice with ration checks, principally as a protection for the large banks. In the absence of such an express prohibition, the small banks would have expected this service from their city correspondents, which would probably have had to supply it. Banks were permitted, however, to send checks drawn on their correspondents directly to those correspondents.¹

The basis of the clearing arrangement was a receipting device. The sending bank listed the debit items on a transmittal letter in duplicate, and the letter accompanied the items. At the bottom of the letter, separated by perforation, was a receipt, containing only the sending bank's name and the total number of units enclosed. The

¹ *Manual of Operating Procedure*, OPA, 1943, p. 7. This provision was inserted at the request of the Committee on Collections of the Federal Reserve System.

paying bank (or the Federal Reserve bank) verified the items to the listing and to the total, stamped the receipt, and returned it to the sending bank. The latter, which retained the duplicate in an open file until the receipt was returned, thereupon attached the original receipt to the duplicate letter, as evidence of completion of the transaction, and closed the file. If the receipt was not returned within a reasonable period of time, a tracer would have to be sent out.

Ration checks were listed on transmittal letters merely in units, with no regard to particular program. In other words, totals in terms of gallons, pounds, pairs and points were added together. Thus the Federal Reserve banks never had occasion to differentiate a meat check from a gasoline check; they proved items received against items sent in any given day merely in total units.

In the event a transmittal letter and checks or a single check, were lost in clearance, one of a number of tracing methods would be followed. Where the loss took place between a Federal Reserve bank and the drawee bank, it was very simple to trace if the Reserve banks photographed all ration checks, which a number of them did. In such cases the film indicated the amount of the check and the drawer, and the proper debit entry would be made by the drawee bank, supported by a debit ticket supplied by OPA.

Where items were not photographed the process was more laborious. Each Reserve bank, usually by a system of cross-numbering, was in a position to determine the banks that had sent the lost items. The sending banks were then notified of the amounts of the lost items, of the date of receipt and of the drawee bank. They then had to identify the item or items through deposit tickets.

If the letter was lost between the sending bank and the Federal Reserve bank, the sending bank knew that every out-of-town item deposited that day was lost. The final aspect of the tracing process was to ask the depositor to identify the person who gave him the particular check and this identified the drawer.

Tracing lost checks sounds more difficult than it actually is. Through labelled adding-machine tapes and other proof methods, it was usually fairly simple to locate a lost item and have the proper debit entered. As an aid in the process, OPA required that check transit numbers be listed on deposit tickets beside each check by the depositor. This made missing items readily identifiable when the drawee bank was known, which was of course always the case when the letter was lost between the Reserve bank and the drawee bank. It should also be remembered that losses occurred very rarely.

The proposed clearance method was formally approved by the Board of Governors on December 16, 1942.² The System's Committee on

² Letter, Marriner Eccles to Leon Henderson, December 16, 1942.

Collections had studied the procedure with OPA representatives and suggested a few very minor changes which had been accepted. In the exchange of letters between the chairman and the Price Administrator, OPA agreed to reimburse the Reserve Banks for their actual costs, which were to be billed periodically with supporting data to demonstrate what costs had been incurred. No other contract existed, and OPA paid approximately \$75,000 per month during the period of full operations to the 12 Reserve banks and the 24 branches. Payment was made monthly after submission of a claim showing man-hours worked, machinery rental and other direct costs.

The clearance method operated most satisfactorily throughout the program. There was some difficulty in a few cases when a receiving bank was dilatory in returning receipts, and one bank was required to withdraw because of persistent refusal to return receipts promptly. On the whole, however, the system worked very successfully. It may be pointed out that at the height of the program, the New York City Federal Reserve Bank was handling 40,000 ration checks per day; officials of the bank had no suggestions to offer for improving the clearance system.

Trade Eligibility for Ration Banking

The problem of which retailers should be permitted or required to have ration bank accounts had to be decided before the program could be started. The determination was made at an early date that no gasoline retailers would be permitted to open accounts, and that all distributors (wholesale) and refiners would be required to operate exclusively through ration banking.³

The eligibility problem, therefore, was essentially one of food—sugar, and coffee which was rationed in November 1942, as well as the food point programs then being planned. Generally speaking, OPA felt that its purposes would be served best by including retailers who accounted for a substantial portion of the retail trade in ration banking. The advantage to OPA was that for any retailer with a bank account there would be a record on his bank ledger of all his rationing transactions, which would facilitate enforcement.

The banks, on the other hand, were anxious to keep the number of accounts at a minimum. Their committee was worried primarily about the labor shortage in the banks; they did not want any more people crowding into lobbies and taking the time of tellers than necessary.

It was agreed that a single criterion should be adopted to determine ration banking eligibility for all food programs. It could only be confusing to retailers if they were required to have a coffee account but

³ See ch. III, p. 27.

not permitted to have a sugar account. Accordingly, the dollar volume of business was selected as the criterion. On the basis of available statistics, it appeared that food retailers whose gross monthly volume of business was in excess of \$5,000 accounted for about 75 percent of the food business at retail and included about 25 percent of the retailers. This was decided upon as the proper "cut-off" level. The larger retailers and all wholesalers were required to open ration account.⁴

The sugar and coffee rationing regulations were amended, effective January 27, 1942, to incorporate these requirements. The sugar amendment read as follows:⁵

Each owner of a registering unit which includes or is composed of one or more wholesale establishments, more than one retail establishment, or a single retail establishment whose gross sales of all meats, groceries, fruits, vegetables, and similar products, were \$5,000 or more during December 1942 shall open at least one account for all the component establishments of such registering unit.

It will be noted that this language ignored the small retailer. By it, he was given the option of opening an account if he wished. The assumption at the time was that very few would elect to exercise this option, though the bankers' committee was skeptical of this assumption. Later experience substantiated that skepticism.

The Manual of Operating Procedure

The basic document used by the banks was the "Manual of Operating Procedure," written in November 1942 and issued in January 1943. Work was begun on it as soon as it had become apparent that the New York State experiment would prove to be a success. The drafting of the manual was done in about 8 days and in every sense was the joint product of the Government and the banking fraternity.

The manual was divided into six parts: Instructions to the bank on how to open an account; the acceptance and proof of deposits; the clearance of checks; internal control procedures; and miscellaneous material. The manual contained only material that was common to all rationing programs and was supplemented from time to time with specific program memoranda.

Bank Forms

With the exception of two or three reporting forms, OPA distributed no forms in connection with the ration banking program. The transmittal letter, the deposit slip and the ration check, carrying the individual bank name, were ordered through regular bank stationery channels by each bank. In most instances banks used their regular commercial ledger sheets for ration banking ledgers, and the proof sheet was ordinarily a ruled pad.

⁴ Every multiunit retailer, regardless of size, also had to have at least 1 account for all his outlets.

⁵ Amendment 38 to Ration Order 3, January 27, 1943. 8 F. R. 1288.

The specifications for the check and transmittal letter were devised after careful discussions with lithographers and the Federal Reserve System. The check was never changed from the original design. The transmittal letter was reduced in size during the stringent paper shortage⁶ so that for a time two sizes of transmittal letters were in use.

The uniformity of all checks in design and size, and of transmittal letters with the exception noted above, made the job of clearing checks in the Federal Reserve banks considerably simpler than it would have been if ration checks had been a number of different designs and sizes. At the request of the Board of Governors of the Federal Reserve System, the bank-transit number and the Federal Reserve routing symbol were on all checks, always in the same spot. Several requests were made of OPA from time to time to permit deviations from the specifications, but these were always refused. It is probable that this uniformity of ration checks gave some assistance to the movement for the standardization of dollar checks that has been afoot for some time.

Bank Education

The task of preparing the banks for ration banking was a formidable one, particularly in the brief period of time available. Most of the Nation's 15,000 commercial banks are very small, and all were very busy during the war. Principal reliance had necessarily to be placed on the manual which, if studied, would prepare a bank adequately for the program.

OPA's field staff was unable to make any substantial contribution. Only eight men, one in each of OPA's regional offices, were technically acquainted with the program, and they were hired only in December. They were unable to cover much territory, and none of the dozen people on the national office ration banking staff was available for extended travel.

The American Bankers Association did excellent educational work, primarily through the State associations, and many banks were reached in this way in group meetings of one sort or another. By and large, however, the bank education was spotty; only a small portion of banks had anything more than the manual and perhaps a State association bulletin on the subject. In spite of this, the banks appeared generally to understand what was expected of them by the program, undoubtedly in large part because of its close similarity to commercial banking.⁷

⁶ Bank Manual Memorandum, May 6, 1944.

⁷ The real failure in the initial education program as well as that which continued was in impressing the banks with the *importance* of following instructions. Many of them failed to do perfectly simple things, not because they could not understand, but because they did not appreciate the importance of the program.

Trade Education

For two reasons the task of educating the gasoline and food industries in ration banking was simpler than in most other rationing programs. In the first place only the wholesalers, processors and larger retailers were affected so that it was unnecessary to carry the story to the country store or the cross-roads gasoline station. Not only did this reduce the number to be reached, but it concentrated the problem with those merchants easiest to train.

Secondly, ration banking was a helpful device for industry and popular with it. Trade associations, therefore, were willing to do even more than usual in carrying a new rationing regulation to their membership. And because most affected merchants were accustomed to regular banking procedures, the program was rather easy to explain.

In spite of these considerations, extensive arrangements were made to teach the trade the program before it was initiated. A new sound slide film was widely distributed and exhibited at meetings under the leadership of OPA commodity specialists in the 106 district OPA offices. Bulletins were distributed at these meetings and later mailed to every person affected.

It is never possible, of course, to get enough trade education for a national program. Nonetheless, the coverage was apparently fairly thorough since the program got off to a good start. It is important to remember in this connection, however, that a large proportion of accounts were concentrated in a small number of large banks, and that fairly good instruction was given each depositor by a bank officer at the time his first account was opened.

The Program Begins

On January 27, 1943, the ration banking system went into operation. At that time it included the sugar, coffee and gasoline rationing programs.

OPA invited the participation of every commercial bank in the Nation.⁸ The agency had no count of banks that responded to the invitation, but the overwhelming majority did so. A number of banks were in localities too small to have eligible merchants so that there was no reason for them to participate. Of those whose services were requested by merchants, certainly less than one hundred refused to take part. There was no part of the country where ration banking facilities were needed but not available. Probably 12,000 banks and 2,500 branches were taking part in the program by the end of February.

⁸ Sec. 1305.405 (b) of General Ration Order 3 defined as eligible "any bank or trust company under any State or Federal law, which is authorized to and does, on the effective date of this order, maintain dollar accounts (not including savings accounts), subject to withdrawal by check or other payable on demand."

The program as installed was identical to that described previously as having been tested in New York, with the changes subsequently indicated. Approximately 200,000 sugar retailers, wholesalers and refiners, 200,000 coffee retailers, wholesalers and roasters,⁹ and 30,000 gasoline distributors were affected. No institutional users (restaurants, hospitals, etc.) or industrial users (bakers, bottlers, etc.) were included at first, but the banks were told that they would be within the near future.

The installation of the program was quite smooth. Certain adjustments inevitably had to be made, but the reception by the trade and the banks was generally good. The system seemed to operate well, and millions of pounds of sugar and coffee and gallons of gasoline began flowing across the country on ration checks. Ration banking had become a going concern.

⁹ The coffee roaster was analogous to the sugar refiner. He converted the raw material to the product used by the consumer. It was at the roaster level in the coffee program that the currency flowback stopped.

CHAPTER VI

The Development of Ration Banking During 1943

From the modest beginnings in January of 1943, at which time three rationing programs were included, ration banking expanded rapidly, almost explosively, so that in July there were seven programs being served. The chief characteristic of this period was the rapidity of change—a month never passed without major additions or major changes. This had a considerable effect on the program, precluding the possibility of a satisfactory study of the many problems that inevitably arose, and undoubtedly impairing the effectiveness of the program.

Addition and Elimination of Rationing Programs

(a) *Processed foods*.—On March 1, 1943, scarcely a month after ration banking was installed, the processed foods rationing system was launched.¹ The eligibility standards for ration banking were the same as those for sugar and coffee so that the banks received an additional 200,000 accounts.

Here, however, the similarity ended. In two ways, the processed foods program was larger than all others combined. First, it was a “point” program; consumers were issued 48 points each month, and the many types of processed foods that were rationed under the programs were given point values. The 48 points were given each consumer by validating each month three strips of stamps in War Ration Book II (at first), each strip containing four stamps numbered 1, 2, 5 and 8, the numbers denoting the value of the stamp. Each strip contained a letter, which was used to identify the stamps validated. In March of 1943, for example, the A, B and C stamps were valid.

In terms of the volume of currency, therefore, this program dwarfed all others. Whereas in sugar each person received one or two stamps per month (depending on the value of the stamp), each person received 12 in processed foods. This had great significance

¹ Ration Order 13, March 1, 1943. 8 F. R. 1840.

to the banks, since it meant more frequent and very much larger deposits.

Second, unlike the sugar retailer, the processed foods retailer, because so many items were included in the program, purchased from a number of different suppliers, and purchases were made frequently. For these reasons check activity was far greater.

(b) *Meats, fats, fish and oils.*—On March 29, 1943, OPA's largest program was launched and put into the banks.² Like processed foods, the meat and fats program functioned on a point basis. Sixty-four points per month per consumer were validated in four strips of stamps, again having the individual values of 1, 2, 5 and 8 points, which meant that 16 stamps per person every month were injected into circulation, or the stupendous monthly total of 2 billion stamps.

In addition, for the first time a number of perishable items were rationed, so that frequency of purchase was very high. At the height of rationing there were more meat ration checks written than all others combined, and in terms of ration banking costs, this one program always amounted to about half the total.

(c) *Shoes.*—The shoe rationing program was announced to a startled Nation on February 7, 1943.³ Two months later it was included in ration banking. The lag was made necessary because of the complete secrecy that had to precede the announcement, which made it impossible to give advance instructions to the banks and permit them to acquire the necessary forms and supplies.

Secrecy was more imperative in planning the shoe program than in any other. The number of shoes purchased by the average person in a year is very small, so that any buying spree, which would surely have been touched off by rumors of rationing, might well have taken from the market a year's normal purchases or more. With inventory low and production lagging, this action would have stripped the shelves bare before the program started, making it almost impossible for rationing to accomplish its purpose.

Between February 7 and April 5, shoe rationing above the consumer level operated on "credit". A stamp in War Ration Book I was designated as valid for one pair of shoes for the consumer. Dealers collected these stamps as they sold to consumers, but held them until April 5. Meanwhile they were required to keep a record of all purchases and to incur a ration indebtedness therefor, to be paid after ration banking began to operate. Following April 5, the program operated substantially like the others, though it was always relatively small and inactive, and rarely caused any trouble.

In only one respect did shoe ration banking differ from other ration

² Ration Order 16, March 29, 1943. 8 F. R. 3591.

³ Ration Order 17, February 7, 1943. 8 F. R. 1749.

banking programs. The eligibility standards were established so that any retailer having a dollar bank account must open a ration account, whereas a dealer not having a dollar bank account was not permitted to open a ration account. The result of this provision was that about 80 percent of the retailers, including some of the very smallest, had accounts. This was a far higher percentage than in any other program and created some problems at first, in that bankers quite generally objected to handling accounts of the smallest retailers. They held consistently to the idea that only the largest retailers should be permitted to open ration accounts.

The reason for the difference in respect to eligibility between shoes and other programs was the conflict between the ideas of the planners of shoe rationing within OPA and those held in the ration banking group. Those responsible for the shoe program maintained that the controls over the shoe distribution system would be complete only if all retailers were treated similarly; they also objected to discriminating against some retailers on grounds of size. The ideas of the two groups were ultimately reconciled by compromise, to the complete satisfaction of neither. About 80,000 accounts were added by this action.

(d) "*Bulk consumers*" of gasoline.—On June 1, 1943, gasoline ration banking was expanded to include the larger "bulk consumers" of gasoline.⁴ Bulk consumers were defined as those who took delivery of gasoline into their own storage tanks for their own use and not resale. They included such establishments as railroads, bus lines, taxicab companies and the like. They corresponded to the institutional and industrial user in food.

Prior to their inclusion in ration banking, they received their periodic rations in the form of bulk coupons, which came in denominations of one and 100 gallons. The coupons were transferred by the bulk consumer to a distributor as gasoline was purchased from time to time. The number of bulk coupons issued was substantial and they were subject to theft, diversion to unauthorized use, and counterfeiting.

The inclusion of the larger bulk consumers which added about 50,000 accounts, removed the hazards enumerated above and also substantially reduced local board workload, since it was much simpler to issue one certificate than a large number of coupons. The accounts could be handled easily in the banks, since there was only an occasional credit (at the time the ration was issued), the balance of the activity being the checks written as gasoline was purchased.

(e) *Fuel oil*.—The final program to be added to ration banking was fuel oil rationing, the addition taking place on July 1, 1943, when the new 1943–44 fuel program began.⁵ Fuel had been rationed the

⁴ I. e., those whose monthly ration was in excess of 980 gallons per month. Amendment 50 to Ration Order 5C, May 15, 1943. 8 F. R. 6846.

⁵ Amendment 67 to Ration Order 11, July 1, 1943. 8 F. R. 9137.

previous year but had not been in ration banking, primarily because of the complexity of the first year's currency system.

Fuel rations were issued each season to fuel consumers in the form of sheets of coupons. There were five periods in the heating season, each with certain coupons designated as valid. In addition there were 10 geographic zones, based on climatic conditions, each having the 5 periods. Finally, most of the coupons were good for so many units, and OPA altered the value of the unit from time to time to meet changes in the supply or weather conditions.

In the first rationing season, beginning and ending validity dates for the periods had differed from zone to zone, and it had been necessary on one occasion to reduce the value of a period coupon in the middle of a period. Since banks near the border between zones would receive coupons from several zones, and all banks would receive coupons from several periods, the complexities would have been extremely great.

The fuel program was put into banking in 1943 largely because of pressure from industry. A number of simplifications were adopted before this was done, the most important being the synchronization of the validity periods for all zones, and a combination of fortunate circumstances made it unnecessary to alter the unit value of fuel coupons during the 1943-44 season; as a result, fuel oil ration banking worked fairly smoothly.

Included in fuel oil ration banking were all primary suppliers, dealers who sold in excess of 250,000 gallons per year, and consumers who used in excess of 50,000 gallons annually. Consumers using between 20,000 and 50,000 gallons annually were given option of opening accounts. Under these circumstances, approximately 47,000 fuel accounts were opened, the smallest of any ration banking program. Volume of currency, however, was considerably greater than in shoes.

(f) *Termination of coffee rationing.*—On July 29, 1943 the rationing of coffee was suspended.⁶ It was decided that the only course of action OPA could pursue toward the coffee trade was to drop the program completely and suddenly, with no attempt to achieve a final reckoning of the rationing books. No other course appeared practicable, because it was deemed to be impossible to gain compliance with reporting or currency provisions after the revocation of the ration order.

The analogous course of action to follow with the banks would have been to stop posting and clearing checks, and throw all coffee ledgers away without further ado. This was judged to be unwise, largely on representation by the American Bankers Association Committee. This group persuaded OPA that such a move would generate a feeling

⁶ Amendment 47 to Ration Order 12, July 29, 1943. 8 F. R. 10672.

of indifference toward the remaining rationing programs and break down the attitude of concern and care which OPA and the Association were at such pains to build up in the minds of bankers.

Accordingly, the banks were instructed⁷ to refuse to accept any further deposits, but to process all items in the customary fashion. As of August 14, by which time it was assumed all checks would have cleared, they were told to make a proof of their coffee ledgers, to submit statements and cancelled checks to depositors and to place coffee ledgers in a dormant file.

Ration Banking in the Fall of 1943

By the fall of 1943 ration banking had reached maturity. No additional programs were added after that date, although there remained for some time the strong possibility that new programs might become necessary; a good deal of study was given to ration banking for the rationing of apparel, fresh milk, and soap, as well as a number of others, but fortunately it never became necessary to ration these commodities.

With the six programs included, ration banking was a very large operation. The 14,000 participating banks were receiving reimbursement from OPA at a rate of \$15,500,000 per year, which was one of the largest items in OPA's budget. There were 1,200,000 accounts in the banks, into which 2,400,000 deposits containing 33,000,000 items were being made each month, and against which nearly 10,000,000 ration checks per month were being written.⁸

An operation of this size, which was developing so rapidly, was bound to create a number of serious problems. This was particularly so in view of the way the program had to be administered during the first six months. From the opening of the program through September of 1943, 35 separate communications were sent by OPA to the banks. Some of these were not of great significance, but many were, and almost all were issued under great pressure of time. The more serious problems which developed during this period will be considered successively in the balance of this and the following chapter.

The Small Food Retailer Problem

It will be recalled that the regulations in the food programs had been so drawn that any retailer whose gross volume of food business was in excess of \$5,000 in December 1942 was required to open ration bank accounts, whereas the smaller retailers were permitted to come into banking if they wished. The assumption had been that very few such retailers would in fact exercise this option.

⁷ Coffee Memorandum No. 5, July 29, 1943.

⁸ These figures are from itemized reimbursement claims submitted by the banks and tabulated by OPA.

This provision created trouble almost immediately. Many, if not most, banks were anxious to keep the number of accounts at a minimum, and tended to welcome ration accounts from their dollar customers while not wanting accounts from noncustomers who were generally not acquainted with banking procedures. As a result, many of the small retailers were persuaded by the banks not to open accounts.

On the other hand, it was definitely to the advantage of wholesalers to have their retail customers in ration banking. Handling ration checks was infinitely more convenient than loose stamps and gummed sheets, particularly in view of the fact that many retailers were not prepared for the arrival of a delivery truck, whose driver accordingly was badly delayed while waiting for the buyer to count his stamps and paste them on the sheets. Many wholesalers, therefore, began immediately to suggest that their customers open ration accounts. In a seller's market such suggestions were particularly persuasive; indeed, in a few cases wholesalers circularized all retail customers announcing that they would not sell to any who did not have ration accounts.

The small retailer was between these two pressures exerted by the wholesaler and the bank; he usually followed his wholesaler's advice, and the bank ultimately had to open the account since the regulation was clearly in favor of the retailer. As a result, banks began to object strenuously to the regulation and ask for a change.

By and large, it was the larger banks in the larger cities which were most anxious for the change. They objected to the amount of education required for the many small accounts and complained of the expense involved in returning so many erroneous deposits.⁹ In a few cities, Philadelphia for one, the banks and the wholesalers association met and agreed that the banks would accept accounts from all retailers having a gross monthly food volume in excess of \$2,500, and wholesalers would refrain from asking any smaller retailers to open accounts. This worked satisfactorily as an informal agreement, but the American Bankers Association was pressing for a formal change in the regulations. Since the original intention had been that only a few of the smaller retailers would open accounts, and since this intention was being very generally violated OPA agreed to a change.

It was decided to follow the Philadelphia example and a change in the regulation was accordingly announced to the banks in April 1943.¹⁰ This change eliminated the option entirely and reduced the \$5,000 figure to \$2,500, leaving all other eligibility provisions un-

⁹ In the establishment of the reimbursement schedule, this item of cost was not considered.

¹⁰ Amendment 55 to Ration Order 3, April 27, 1943. 8 F. R. 5318. Amendment 30 to Ration Order 12, April 27, 1943. 8 F. R. 5318. Amendment 11 to Ration Order 13, April 16, 1943. 8 F. R. 4784. Amendment 3 to Ration Order 16, March 30, 1943. 8 F. R. 4137. The change was announced to the banks in Manual Memorandum No. 3. April 3, 1943.

touched. Retailers whose gross monthly business had not exceeded \$2,500 in any month since December 1942 and had already opened accounts were required to notify their banks and to withdraw their balances and close out their accounts within 3 months.

This provision satisfied the American Bankers Association and most of the larger banks, and was acceptable to the national wholesalers associations. It turned out, however, to be no solution at all. The smaller banks immediately began to object to the idea of having to eliminate their small retail accounts. They pointed out that the result would be a considerable inconvenience to their small depositors whom they were perfectly willing to carry.¹¹ OPA's mail was emphatic and sustained on the point. Most of it came from banks in small communities where the banker was closer to the depositor, although the sentiments were shared by a few of the large aggressive banks who viewed the small retailer as a potential customer and welcomed the opportunity to have him come into the bank.

OPA was sufficiently alarmed at the attitude of the banks during April that on May 1 a memorandum was sent to all banks reading in part as follows:¹²

We have received numerous letters from banks throughout the Nation that they would like to continue to maintain on their books the retail food accounts that are below the \$2,500 level. . . . If the above feelings expressed by many banks continue to prevail, we shall consider a change during the coming 90-day period, granting to the banks the option of maintaining such food accounts.

This memorandum was issued as a suggestion to the banks that the decision apparently reached on April 3 was not irrevocable, and so that they would realize that they need not make haste in closing their smaller accounts before the deadline. It was also a frank bid for a show of hands, which seemed important in view of the fact that the American Bankers Association felt that the change should be allowed to stand in spite of the bank mail being received by them as well as by OPA.

The result of the memorandum was to increase the volume of mail which continued to run heavily in favor of permitting the small accounts to be retained. In July of 1943 the regulations were changed¹³ and on June 22, OPA issued Information Memorandum No. 8 which acceded to the many bank requests. It permitted the accounts under \$2,500 to be retained by any bank that wished to do so, the only condition being that the bank must adopt a uniform

¹¹ Some even offered to do this without reimbursement.

¹² Information Memorandum No. 6, May 1, 1943.

¹³ Amendment 71 to Ration Order 3, July 12, 1943. 8 F. R. 9304. Amendment 45 to Ration Order 12, July 12, 1943. 8 F. R. 9305. Amendment 45 to Ration Order 13, July 12, 1943. 8 F. R. 9305. Amendment 46 to Ration Order 16, July 12, 1943. 8 F. R. 9305.

policy with respect to all its depositors. If it permitted any of its small accounts to remain, all had to have the same privilege.

With the issuance of this memorandum and the change in the food regulations, this problem was solved, though only in the sense that the pressures disappeared. A few comments appear to be in order about this sequence of events. The "solution" was really a reconciliation of a number of pressures. It did not establish uniformity of treatment for smaller retailers, at least as among banks. A retailer whose gross volume of food business in December 1942 was between \$2,500 and \$5,000 was permitted to have accounts only if his bank decided to accept such accounts. Since it was generally agreed among retailers that food ration bank accounts were desirable, it appears to have been questionable public policy to place this authority in the banks.

The public interest in the matter was confined to the expenditure of a rather small amount of public funds for the maintenance of the additional accounts, and the additional deposits and checks.¹⁴ During the discussions, however, the matter of budget was not considered in arriving at the decision. Had this been the case, it is unlikely that the final change granting the bank option would have been made.

The regulations were amended during the spring to change the determining month from December 1942 to "December 1942, or . . . any single calendar month since December 1942."¹⁵ This enabled new establishments and those which were growing during this period to participate at the proper time.

The Institutional and Industrial User Problem

When sugar and coffee were the only foods rationed there was no particular need for the inclusion of institutional or industrial users of food in ration banking. Periodically these users were issued a single certificate by OPA in the amount of their allotment. Characteristically they purchased from a single supplier, and the custom of transferring the certificate immediately to the supplier developed early in rationing. Either the entire delivery of sugar or coffee was then taken, or the supplier considered the certificate as a deposit to be drawn against during the allotment period. No currency problem arose.

With the development of the plans for the processed foods and meat and fats programs, however, new arrangements had to be made. In those programs purchases would not only be frequent but, because of the many different foodstuffs rationed in one program, an institutional

¹⁴ The items of course would have been deposited anyway, though by a different depositor.

¹⁵ Amendment 55 to Ration Order 3, April 21, 1943. 8 F. R. 5318. Amendment 30 to Ration Order 12, April 27, 1943. 8 F. R. 5318. Amendment 11 to Ration Order 13, April 16, 1943. 8 F. R. 4784. Amendment 3 to Ration Order 16, March 30, 1943. 8 F. R. 4137.

user would necessarily purchase from many different suppliers. He would, therefore, have to have a method for making a number of purchases with ration currency during the allotment period; a single certificate would not be satisfactory. Planning went forward, therefore, to bring institutional and industrial users into ration banking.

It was assumed that these accounts would be generally more attractive to banks than others. They differed from other accounts in that they had very little credit activity. Aside from an occasional refund check their only deposit would be the allotment certificate each two months for institutional users and each three months for industrial users. No particular trouble was anticipated, therefore, in permitting all institutional and industrial users to open accounts.

The program was announced to the banks on February 19, 1943, to be effective on March 1, the date processed foods rationing began.¹⁶ As soon as the meat and fats program was installed, a reaction from the banks developed that was similar to that from the small retail accounts, though probably even more violent. In the two-point programs all institutional users, in practice, had to open accounts even though they were not legally required to. Particularly in meat and fats, the small institutional user had to buy from many suppliers and simply could not operate with a single certificate for two months.

As a result, every bar and grill owner, hamburger stand operator and popcorn vendor presented himself at a bank to open a ration account. Many of them were unable to speak or write English. In the South the problem was complicated by the racial situation; the owner of a tiny Negro bar had as much need for, and right to, a ration account as the owner of the finest hotel in Atlanta. There was a danger at one time that all the banks in one of the southern States would withdraw in a body, which would, of course, have created a critical situation.

Aside from the bank reaction, it was obvious that it was uneconomical to have all institutional and industrial users in ration banking. The situation developed because improper advance planning had taken place, primarily because of the tremendous pace of developments in those months which frequently made adequate planning impossible.

At any rate the problem was not easy to solve quickly. The only real solution could be the printing of a new form of ration currency which could be issued to the small institutional and industrial users to be used in lieu of ration checks. Plans were made as rapidly as possible to do this but the printing of ration currency is a lengthy process. Some more immediate action was required.

There had been a recent change in administration at OPA. In an effort to allay the growing bank unrest, the new Administrator sent a

¹⁶ Information Memorandum No. 2.

letter to all banks in April 1943 expressing his appreciation for the assistance they were rendering in the rationing programs. He listed a number of ration banking problems on which OPA was then working and named the small institutional user problems as the first of these. His letter stated: "We are planning a definite cut-off for the smaller institutional users by providing them with a book of ration stamps with which to purchase."¹⁷

One other step was taken immediately. The local rationing boards were instructed to attempt to persuade small institutional and industrial users not to open or use bank accounts, and to split their allotments into as many as six different certificates if such treatment would permit them to conduct their business without resort to ration banking. This move was not particularly effective since it was so much simpler for the board to issue one certificate than six. The device was not widely used, but OPA was able to use it as a talking point with the banks.

By the end of the summer the new coupons (rather than a book) were ready for issue by the boards, and the change was made at the September 1 allotment period. At that time institutional users serving 3,000 meals per month or less were issued coupons instead of a certificate. This was also done for industrial users using less than 2,000 pounds of the rationed foods in their base period. These users were required to close their accounts by November 1, 1943. No change was made in the sugar program because, for reasons cited above, the problem never developed in that program.

With the issuance of this notice of change¹⁸ to the banks in August the problem was solved. For the duration of the problem, the American Bankers Association assisted in urging restraint and patience on the banks, while at the same time urging speed on OPA.

¹⁷ Letter, Prentiss M. Brown, "To All Banks Participating in Ration Banking." April 12, 1943.

¹⁸ Information Memorandum No. 12, August 17, 1943.

CHAPTER VII

Verification of Stamps and Coupons Deposited in Banks

The gummed sheets, the use of which has been described at an earlier point, were an ideal means of assuring an accurate counting of stamps and coupons as they moved through the trade to the banks. A partial departure from the gummed sheet device in March of 1943 created a set of problems which were solved only after a number of significant changes in the rationing flow-back system were made.

The departure was caused by two sets of factors: A production problem and a trade problem. As to the first, the gasoline program was consuming an estimated 20,000,000 gummed sheets per month, the sugar and coffee programs 3,000,000 each, and the fuel oil program 10,000,000, a total consumption of about 35,000,000 sheets each month. With the institution of the processed foods program this figure would have been increased by 60,000,000, and meat and fats might well have added another 90,000,000.

The production of gummed sheets was a highly specialized job, requiring rather unique drying facilities. As a result, not many producers were capable of manufacturing them. In addition, their processing required an ingredient in very short supply needed for processing V-mail letters, so that materials as well as productive facilities were a limiting factor in the situation. It became apparent that it would be extremely difficult if not absolutely impossible to satisfy the demand for gummed sheets under full-scale rationing.

In addition, the food industry made representations to the effect that it would not be possible for retailers to handle the immense flow of stamps if they were required to affix them all to gummed sheets. They claimed to be experiencing difficulty in sugar, which would of course be dwarfed into insignificance by the two point programs.

These representations were difficult to discount. There would be 2 billion red stamps and a billion and a half blue stamps to be processed every month; even when divided among a half million retail outlets,

the burden was great. Averages are meaningless because of the great range of size of food stores, but even without using gummed sheets, many an owner of a small store spent his Sundays with his family processing ration stamps. At a chain or supermarket headquarters as many as 30 employees worked full time on nothing but ration stamps.

These hard cold facts made it necessary to develop a substitute for the gummed sheets. Unfortunately this had to be done very hurriedly, and just before the processed foods program was installed. It was a severe shock to the ration banking program.

A hasty examination of all possible alternatives led to the adoption, in the food programs, of the use of envelopes instead of gummed sheets.¹ The retailer was required, before transferring or depositing his stamps, to sort them into denominations and insert them in envelopes. The envelope was then sealed and a certification as to the contents signed by the retailer. If they were transferred before deposit the transferee was not permitted to open the envelope, but was required to accept them at declared value. If a subsequent discrepancy was uncovered the original inserter only was held liable.

Because of the haste in which this change was made, OPA was unable to supply standard printed envelopes to the trade immediately. The regulation² provided, therefore, that any sort of envelope could be used temporarily. The only restriction was that no more than 500 stamps could be inserted in any one envelope.

By May a standard and official envelope had been printed and distributed and came into general use. This tended to lessen the confusion considerably, since instructions for its use were printed on it. At the same time OPA authorized the use of so-called "bulk" envelopes. These were used by the large stores, supplied by them at their own expense, and their use differed from that of the standard envelopes only in that they were to contain either exactly 2,000 or 5,000 stamps. They were very generally used by stores accumulating substantial numbers of ration stamps.

The departure from gummed sheets was made only in the food and shoe programs. Gasoline and fuel oil dealers continued to use gummed sheets. The result of the change was undoubtedly to loosen substantially the control of the flow-back. It also created an immediate problem of how to verify the contents of the envelopes. It should be emphasized that the change was made with extreme reluctance by OPA, and only because it was simply impossible to continue the universal use of gummed sheets.

¹ The change was made on February 27, 1943.

² General Ration Order 7, March 5, 1943. 8 F. R. 2858.

The Dispute With Organized Banking

One of the most significant effects of the introduction of the envelope system was the serious disagreement between OPA and organized banking over the question of verification. The American Bankers Association's Ration Banking Committee worked closely with OPA. A subcommittee came to Washington every week for the first year or so to discuss problems and offer advice. This subcommittee was kept well informed of all developments and made many major contributions to the program; it worked very well with OPA and the two parties were generally in agreement.

From the first, however, the committee opposed the whole idea of using envelopes, considering it a departure from sound banking principles, and was very much against having the banks undertake any verification of envelopes. OPA, on the other hand, anticipated asking the banks to spot check the envelopes, in order to maintain a semblance of control until a more satisfactory method could be devised. Because of the Association's opposition, among other reasons, this was not done at the time the change was announced to the banks.

The change to envelopes meant a considerable decrease in workload to the banks. Since many more stamps were in each envelope than would have been on each gummed sheet, fewer "items" would be handled in the banks. Correspondingly, since reimbursement was based in part on the number of items handled, the change also meant a decrease in revenue to the banks. OPA had in mind to ask the banks to undertake to verify the contents of a percentage of the envelopes (at a fee) which would require about the same amount of work and yield about the same amount of reimbursement as would have been present if the change had not been made. It would require study, of course, to determine such a percentage.

In announcing the change to envelopes to the banks OPA stated that "Banks are not required to verify the contents of envelopes at present."³ It went on to say, however, that a spot check would later be required in terms similar to those indicated in the previous paragraph. The memorandum also instructed the banks to retain 10 percent of all envelopes deposited until further notice and to cremate the remainder periodically.

For three months following the issuance of this memorandum, the Association attempted to persuade OPA not to impose a verification requirement on the banks. They insisted that the banks would withdraw if it was done, that it was not sound banking, that the workload would be too great, and that it would teach bank employees bad habits. They suggested as a counter measure that OPA establish centers to which the envelopes could be shipped by the banks for verification.

³ Information Memorandum No. 3, March 3, 1943.

This idea had merit and work was begun shortly to devise such a plan, but OPA was convinced that action had to be taken much sooner than any such plan could be worked out. Spot checks in banks by OPA field staffs began to show a growing laxity on the part of the trade as the realization spread that no verification was taking place.

OPA was constrained to move cautiously because of the risk of wholesale bank withdrawal from the system, particularly since the Association had declared its intention of circularizing its membership (which included 95 percent of the banks) if OPA imposed a verification requirement on the banks. Decision was finally reached late in May that the risk could be run, and had to be run if the integrity of the rationing programs was to be preserved. The decision was reached in part because independent checks had persuaded OPA that the move, while certainly not popular, would not lead to mass withdrawal by the banks.

The instructions were mailed to the banks on June 2, 1943.⁴ The memorandum was accompanied by a letter signed by the Price Administrator explaining why the action was taken and requesting the cooperation of all banks. It also pointed out that the verification plan was not considered a final one by OPA and that work was going forward on a more acceptable program.

The instruction was that each bank was to select at least three percent of the standard envelopes deposited, open them and count the contents. Any envelope with a discrepancy in excess of two percent was to be forwarded, with particulars, to the OPA district office. Suitable action against the inserter would then be taken by OPA.

As anticipated, the Association released a bulletin to the banks on the same date the OPA letter and instructions went forward.⁵ This bulletin informed the banks that OPA had issued its instructions over the strenuous objection of the Association and set forth in detail the reasons for the objection. These were listed as follows:

1. Manpower is a problem in many banks.
2. A customer relation problem will arise from the reporting of errors to the OPA and not to the depositor.
3. The small percentage checked will make it difficult for the OPA to build up cases against violators.
4. Employee morale will be demoralized if banks are required to conduct any part of the ration banking operation in a loosely controlled and inadequately safeguarded manner contrary to required banking principles.
5. Any test check which the banks could make under this plan would be inadequate to provide protection against fraud and gross irregularities.
6. If at a later date it developed that fraud had been practiced generally the banks might justly be blamed for having agreed to participate in an inadequate verification procedure.

⁴ Manual Memorandum No. 6, June 2, 1943.

⁵ American Bankers Association, Ration Banking Bulletin No. 5, June 2, 1943.

While the point was thus made crystal clear that the Association did not endorse in any way the verification program, the bulletin, in the concluding paragraph, requested the continued cooperation of the banks in ration banking. The bulletin concluded by suggesting that each bank write OPA expressing its opposition.

The banks responded well to the Association's final suggestion, and during the month of June, 1,084 letters from banks were received. Two of those letters were favorable; 1,082 entered more or less strenuous objection. No bank, however, withdrew from the program, and only 65 threatened to do so. The net result, therefore, was that from June 2 on a certain amount of verification was done. The instruction was that banks were to do "at least" three percent and later reimbursement reports showed that about five percent of all envelopes were being verified by the banks, though there were some banks doing no verification.

At the district offices notice was received from the banks whenever discrepancies were discovered. In addition, banks sent ten percent of the bulk envelopes to the district offices where their contents were counted on specially constructed precision weighing scales.

Under General Ration Order 3, OPA had authority to "debit, credit . . . or otherwise deal with any ration bank account."⁶ Accordingly, whenever a discrepancy appeared in an envelope which was deposited by the same person who sealed it, a "debit slip" (OPA Form R108) was filled out in the district and mailed to the depositor's bank, separate advice going to the depositor. The debit slip was handled by the bank like a ration check—the debit was posted, the slip canceled and returned in the statement of the depositor.

Where the discrepancy occurred in an envelope which was sealed and certified by someone other than the depositor (for example, by a retailer without a ration bank account) the procedure had to be different. The depositor in such a case was innocent and no action against him was taken. Instead, the district office wrote directly to the sealer of the envelope and required him to return stamps in the amount of the shortage. In both cases, of course, any person consistently shorting envelopes or stuffing them with alien matter received more serious enforcement attention than a mere debit or collection of the shortage, either in the nature of suspension from the purchase and sale of the commodity or criminal prosecution.

While the spot check secured under the bank verification program was of considerable assistance in controlling the flow-back, it was unsatisfactory in a number of ways. The check was too small and too expensive. It was inflexible in that OPA could not direct the selection of the three percent in each bank. And finally, OPA was committed

⁶ Section 1305.412.

to the banks to evolve a better program and relieve them of an unpopular chore.

These considerations led to the development of the verification center plan which was installed in the summer of 1944. The delay is accounted for by the fact that the ration token program (to be described in the next chapter) had to be installed first in order to reduce the volume of currency to manageable proportions. The verification centers were the logical conclusion of the chain of events set in motion by the substitution of envelopes for gummed sheets. Only when they had been established and were operating was real control over the flow-back system regained.

The Verification Centers

The spot check of envelopes by the banks and the limited additional checking that was done by OPA field personnel in the banks undoubtedly kept the system from breaking down entirely. But the check was not truly controlling the flow-back system and the trade was aware of it. The net result was a growing carelessness on the part of the trade; errors became more and more frequent. It is interesting to note that every substantial check indicated nearly as many overages as shortages, lending weight to the thesis that it was carelessness rather than conscious cheating. Only very rarely was an envelope opened and found to contain newspaper or other foreign matter.

In the fall of 1943 another development took place which somewhat altered the nature of the problem. OPA, in its occasional examination of gummed sheets in banks, began to discover counterfeit gasoline coupons, most of them good enough so that the naked eye could not detect their invalidity. As this practice grew it enlarged the verification problem from one of envelopes to one of gummed sheets as well; in the early stages of planning it had been assumed that only the envelopes would come to OPA's verification centers.

These problems could be solved only if OPA established facilities to examine deposited items after the banks had received them. The plan, therefore, looked toward the establishment of so-called verification centers, one in each of OPA's eight regional cities, to which all stamps and coupons could be shipped periodically by the banks. These centers were equipped with special facilities for the detection of counterfeit stamps and coupons and the rapid counting of stamps. Incidentally, the establishment of the centers removed from the banks the cremation problem, which had never been adequately solved prior to that time.

Bank Procedures and Verification Centers

Because it would eliminate the troublesome currency destruction problem and because of their opposition to verifying envelopes, the

banks were strongly in favor of the establishment of the verification centers. In working out the procedures to put the plan into operation, the banks, through their association committee, gave much assistance. Planning took a number of months since the project was a large one, requiring a number of substantial changes in the ration banking plan and the procurement of a considerable amount of space, equipment and personnel by OPA.

The plan was presented to the banks on June 10, 1944, in a memorandum entitled "The Regional Verification Plan." The beginning of the program was staggered so that banks in 26 States began to participate on June 14, those in 15 additional States on July 15, and the balance on August 1. The stagger system was used because of the impossibility of making accurate workload estimates, and because of the desire to avoid having the full load descend on the newly organized centers at one time. Some of the OPA district offices had also made informal arrangements with their banks which were sending gasoline gummed sheets to the district office for follow-up there against counterfeiting. OPA was anxious not to disturb this situation where it was working effectively until it was sure the verification centers were able to handle the job.

With respect to the acceptance of deposits, very little change was made in the responsibility of the banks. They were to continue to prove all deposits, though they were to accept the depositor's declaration as to the contents of envelopes. They were to continue to insist that each item contain all required information; this became more important, incidentally, since the centers would have no deposit ticket or signature card to refer to for information. OPA's responsibility was to examine stamps and coupons to detect counterfeits and to open envelopes and count their contents. The banks were instructed that when the verification center programs went into operation in their States, they were no longer permitted to open envelopes for any reason.

Items were to be forwarded to the centers by the banks at least twice monthly, more frequently if they wished. The items could be mailed, or, in the case of banks in verification center cities, delivered by messenger. A number of the large banks took advantage of the latter option.

Each bank was furnished by OPA with a book of gummed labels, similar to a check book, each label having a stub. The labels (and corresponding stubs) were numbered consecutively as packages were mailed. The label was imprinted with the appropriate verification center address and required no postage. Through an arrangement with the Post Office Department, packages bearing such a label were handled in transit much like registered mail. The sending bank received a Post Office receipt at the time of mailing as its record that the shipment had been made, and was required to retain this receipt.

It may be noted that this receipt was for a package mailed, and not for the contents of the package. It would be quite possible for such a package to be opened by a clerk en route to the post office, and resealed and mailed. To tie up this loophole, the procedure called for the bank to mail separately an advance shipment notice to the verification center, against which the actual contents of the shipment could be checked at the center.

The advance shipment notice was a listing, in totals only, of the value in pounds, gallons, pairs and points in each program for which shipment was made. These figures could be obtained by the bank either by running the items before sending, or, if each day's items were proved and placed in the vault, by running subtotals from the proof sheets for the period since the last shipment. Because of the work involved in proving a shipment in the verification centers, the percentage of bank shipments proved was always very low.

As a result of this procedure, the entire ration banking operation was for the first time provable. Items deposited were supported by deposit tickets. These had to equal the debit entries on the proof sheet which in turn had to prove to the entries on the advance shipment notice. Finally, those totals had to prove to the actual items received in the center. If these proofs were all made, OPA was assured that proper entries were made during the entire process and that all items received in the bank were in turn received by OPA. While this complete proof was rarely made, the possibility of making it was a substantial contribution toward increasing the soundness of the system and a real improvement over the "open-endedness" of the ration process.

One other procedural change was significant. The verification centers were established in such a way that it was vital that each item be completely identifiable as to depositor and to bank. The regulations had always provided that every item deposited must bear the endorsement of the depositor. Because action on an item discovered to be invalid ordinarily called for the debit of the account of the depositor in the amount of the invalid item, it was necessary to know the name of the bank.

Accordingly, the instruction to the bank stated that each item forwarded to the centers must have the bank name on it. Because it was realized that this would be a very burdensome requirement for some of the banks having very large depositors, the suggestion was made that the depositor's endorsement stamp contain the name of the bank. This suggestion was followed in many instances. The bank endorsement requirement remained a problem for many months. Many banks persisted in sending unendorsed items, and only after the most strenuous educational work did the problem diminish in importance.

The Operation of the Centers

It was several months before the centers began to operate efficiently. The job of staffing them and organizing them properly was difficult because it was a new operation that had to be learned by experience. Once the difficulties had been ironed out, they were able to accomplish a tremendous volume of work.

At the receiving desk at each center the packages were checked off against the advance shipment notices and against a bank list. If anything was obviously wrong with the shipment, or if a bank was not shipping frequently enough, a mimeographed notice was forwarded to the bank. Any shipment to be proved was sent immediately to the bank proof unit.

The packages were then opened and the contents sorted. Gummed sheets were sent to the fluorescent lighting equipment and to other testing devices, as well as to persons who were trained to pick out coupons with serial numbers of stolen coupons. The extent of coverage depended on availability of manpower and the general state of counterfeiting. For example, fuel oil coupons were almost always destroyed with no processing whatever because no counterfeit coupons were ever discovered in that program. A percentage of shoe stamps were checked for counterfeits, since they persisted in turning up now and then. But all gasoline coupons were always checked since that program seemed to attract most of the counterfeiters.

Envelopes were sent to weighers who counted their contents on delicate scales. Sometimes, particularly in meat and sugar, the contents were also subjected to counterfeit tests. Some of the clerks became so expert that they could finger 750 stamps⁷ in an envelope for a few seconds and pull out the 10 counterfeit stamps. At the peak of efficiency of the verification center operation, it is probably fair to say that very few counterfeit gasoline coupons, which were exclusively on gummed sheets, were not being detected. Shortages or counterfeits in envelopes were more difficult to handle, since their examination was a much slower process, but a creditable job was eventually done in this field as well.

Most of the items, of course, survived the various validity tests and were either put through a macerator or convoyed under armed guard to a paper mill for reclaiming. Those items which were invalid for one reason or other were put aside for separate treatment.

The Debiting Programs

Invalid items were sent to what was known as "the debiting unit" in the verification center. In meat, processed foods, shoes and fuel

⁷ The original limitation of 500 stamps to an envelope was raised to 1,000 when the small stamps in War Ration Book IV came into use. Amendment 6 to General Ration Order 7, December 20, 1943. 8 F. R. 16839.

oil, the items were then sent to the OPA district office having jurisdiction over the bank of deposit (ordinarily, of course, the depositor's district office also). If the item had been prepared by the depositor (i. e., if he had instered the stamps and sealed the envelope, or had affixed them to the gummed sheets) the district office instructed the bank to enter a debit against the account in the amount of the invalidity. If another person had prepared the item and transferred it to the depositor, the district office wrote the original person directing him to send to the district office valid currency in the appropriate amount. In other words, the system operated as it had while the banks had been verifying, except that counterfeits were included as well as short envelopes.

This was less efficient and less effective than the sugar and gasoline debiting systems which were operated by the verification centers directly. For illustrative purposes the gasoline system will be described; sugar was practically identical.

It will be recalled that when the gasoline program was begun, each dealer and intermediate distributor registered with the local rationing board. At that time he indicated his gasoline storage capacity, and the board issued him currency equal in value to the difference between his inventory on hand and his storage capacity. Thereafter, if he always paid ration currency when buying and collected currency when selling, he would always have on hand a physical supply of gasoline and a gallon value of currency which, when added together, would equal his storage capacity. He was always expected to be able so to account for himself when called upon to do so, and his storage capacity as stated on his registration with OPA was his accountable figure.

Another apparent digression is called for. The gasoline regulation required a dealer to detach the coupon or coupons from a customer's book at the time of the sale, and to make sure that the license number on the book checked with the license number on the vehicle. This was significant because there was practically never an occasion where a gasoline book was counterfeited. If a dealer scrupulously observed this requirement, therefore, he would practically never receive a counterfeit coupon. The general pattern of violation was for a dealer to sell gasoline ration free (at an illegal price also, of course) and to cover himself by buying counterfeit coupons.

These facts are important because they meant that a dealer rarely collected counterfeit coupons "through no fault of his own." A legitimate dealer could safeguard his business by exercising due caution, and OPA could proceed on the assumption that counterfeit coupons could be dealt with summarily without undue harm to innocent persons.

Most counterfeit coupons were affixed to gummed sheets by dealers who did not have bank accounts. The debiting unit, in processing invalid coupons, prepared five notices to make the debit. Actually, these were form carbon notices and could be prepared very quickly.

The first of these notices was a debit slip for use of the depositor's bank in debiting the account. At first these debit slips were mailed directly to each individual bank, but this procedure was later changed and all debit slips were listed periodically on a regular ration banking transmittal letter and forwarded to the nearest Federal Reserve bank or branch. From there they were cleared to the various drawee banks just as though they were ration checks. In effect, the verification centers became eight additional sending banks in the clearing process.

The second notice went to the depositor. It informed him that his bank account had been debited, that he was required to collect from the dealer or dealers valid currency to replace the debited items, and that until this replacement had been made he was not permitted to make sales to the dealer. When he secured replacement, he made his deposit and his account was again in balance. —The procedure placed no burden on the depositor to detect counterfeit coupons and worked no lasting hardship on him.

The third notice was sent to the dealer who originally affixed the coupons to the gummed sheet. He was instructed that he must transfer to the supplier valid ration currency before taking any additional gasoline deliveries and that his registered storage capacity was permanently reduced in the amount of the invalid coupons. Any dealer who persisted in using counterfeit coupons, therefore, would eventually be debited so much that his rationing capital would approach zero and he would be unable to continue in business.

The fourth notice was sent to the dealer's local board so that the appropriate reduction in the dealer's registered storage capacity could be made on his registration form. The final notice went to the OPA district office where a similar record was kept. At this point a careful watch was kept of each dealer's record so that more strenuous enforcement action could be taken against those dealers who were consistently dealing in counterfeit coupons.

The debiting program was an attempt to deal with a counterfeiting situation essentially. Counterfeiting in gasoline, and later in sugar and meat, developed rather suddenly and for a while was distressingly widespread. OPA combatted the practice in two ways: first by trying to uncover the presses and makers, and second by drying up the market through the debiting program. Since the buyers of counterfeit coupons were almost always dealers, sales began to drop as soon as the

debiting program became effective. It proved an efficient means to combat a situation in which there were too many violators for OPA to be able to make progress by individual attention to violators.

The gasoline debiting program was effective in reducing the use of counterfeit coupons. Until the fall of 1944 no reliable figures had existed to indicate what the counterfeit situation really was. The use of counterfeits after September 1944 and the effectiveness of the debiting work of the verification centers are apparent in the figures reported by the centers:⁸

Month :	<i>Number of counterfeit coupons</i>
October 1944-----	1, 264, 615
November -----	1, 357, 556
December -----	1, 981, 660
January 1945-----	1, 087, 682
February -----	333, 851
March -----	365, 945
April -----	327, 880
May -----	144, 638
June -----	108, 863
July -----	78, 611
August -----	¹ 38, 935

¹ Rationing was terminated in the middle of August so that the final figure represents a half month only.

In early 1945 a sugar-debiting program, identical in detail with gasoline, was instituted. Shortages in envelopes as well as counterfeits were included. A similar program for meat and fats was about to be installed in the summer of 1945 when the approaching end of the war and the apparent early end of meat rationing forced abandonment of these plans. There was some discussion of a debiting program for shoes, but this did not become serious until the war was about over. No consideration was given to a program for processed foods and fuel oil since neither counterfeiting nor envelope shortages ever became significant in those areas. The more or less casual and occasional debiting of bank accounts or collection of valid currency by district offices after detection by verification centers was evidently a sufficient deterrent in those programs.

The verification centers thus became an integral part of the control of the flow-back. The need for this or some similar device became apparent after two developments had taken place: the introduction of envelopes and the rise of counterfeiting. The examination of envelopes and the detection of counterfeits were the two major functions of the centers. The banks retained the function of checking deposits for erroneous count of coupons or errors in addition, and out of date items. If both the banks and the centers performed perfectly,

⁸ The centers reported twice each month to Washington where tabulations were made.

the flow-back would be perfect. Neither did, of course. The centers were never able to open and verify all envelopes, though they were extremely efficient at detecting counterfeits. And among the 15,000 banks, there were bound to be some that did a poor job of checking deposits. Some of them, too, overlooked the bank endorsement on each item from time to time, which usually meant that if the center found something wrong it was powerless to act since it could not identify the violator.

Nevertheless, the flow-back system was generally effective. The trade seemed to view it with respect, particularly in the latter stages, after it had been refined and improved. In spite of its imperfections, it served its purpose in allocating scarce commodities.

CHAPTER VIII

The Ration Token Program

On February 27, 1944, blue and red ration tokens came into use as an integral part of the two large point food programs: processed foods and meat and fats. This was the most significant single change made in the flow-back system since the introduction of ration banking. It had a great impact on the ration banking system as well as on the rationing programs themselves, causing a number of substantial changes, and making others possible.

Reasons for the Adoption of Tokens

Fundamentally, the token program was the solution to the problem posed by the volume of paper used in the two point programs. It will be recalled that the meat program was using 16 separate stamps totalling 64 points per person per month. In processed foods, 12 stamps totalling 48 points were put into circulation each month for each person. In other words, almost four billion stamps each month flowed into a half million retail stores and 15,000 commercial banks. Grave problems arose from this avalanche of paper.

One of these, the problem of gummed sheets and verification, was discussed in the previous chapter. The establishment of verification centers had to wait for the installation of the token program so that the volume of paper received would be manageable. So long as the bulk of paper remained so great, verification of envelopes remained physically impossible.

Another problem arising from the rate of use of the stamps concerned ration books. The printing of ration books, with their safety paper, other security devices, and perforations, was a gigantic task. It was not feasible to print a book with more than four sheets of stamps. As a result, the two point programs consumed ration books at the rate of two per year. Not only did it cost in the neighborhood of a million and a half dollars to print a book and a like amount to distribute it, but there was a question as to whether the printers could keep up with this rate of book use.

In addition, the distribution of a ration book to every person in the land was a simply enormous task. It required thousands of volunteers, usually school teachers, and whether they could be mobilized as often as twice a year was at least questionable. Besides, lining up the American people any more often than necessary was certainly to be avoided.

The books contained stamps in denominations of one, two, five, and eight points in order to permit the customer to be able to pay her ration bills, no matter what the total might be within her allotment. The American consumer, however, found it difficult to add properly, and particularly in stores with check-out stands, lines moved distressingly slowly. Some supermarket operators informed OPA that a cashier collected only half as much cash in an hour as before rationing because of the need to help customers add their ration points, or because customers offered several ration books to the cashier saying "here, you do it; take whatever it should be." In a time of severe labor shortage, this matter was serious to store owners who began to insist that OPA provide some relief.

Retailers objected, too, to the processing of the stamps after they had been collected. It was necessary to sort the stamps into denominations before counting them and inserting them in envelopes. OPA required this because without it verification of any sort would have been utterly impossible. According to retailers it required about as much time to sort as to count; some of the larger stores used specially constructed weighing scales to count, but sorting remained a hand process. At one time OPA estimated that it cost retailers three million dollars per month in direct labor to process ration stamps.¹

Trade unrest was stimulated when the processed foods program exhausted the stamps in War Ration Book II and began using the stamps in War Ration Book IV. The significant factor in this change, which was made on November 1, 1943, was that the new stamps were only half as wide as the old. In consequence, they were even more difficult to handle. In addition, the trade was aware of the fact that the meat program would have to make a similar transition on February 27, 1944. OPA was assured that such a situation would be completely intolerable and that even before that the system was in danger of collapsing of its own weight.

The Token Plan

The answer to the problem seemed to be in some device which would enable the value of each stamp to be raised so that their quantity could be reduced. In the fall of 1942, while the meat and processed foods programs were in the planning stage, some thought had

¹ Letter, Chester Bowles to Congressman Busby of Illinois, January 24, 1944.

been given to the use of a token as change, but the idea had been abandoned because it did not appear possible to obtain them in sufficient quantity.

In April of 1943, the chairman of the American Bankers Association Ration Banking Committee suggested the idea, recommending that the possibility of using a porcelain token be examined. His suggestion came because he was interested in reducing the quantity of stamps in order to get away from the use of envelopes and back to gummed sheets, which were always favored by the bankers.

Following his suggestion, a great deal of work was put into a search for some material which was available in quantity, adapted to speedy manufacture and relatively immune to the efforts of counterfeiters. The details of the search are not germane to this discussion; suffice it to say here that vulcanized fiber was finally found to be satisfactory and the plans then proceeded.

In brief, the program called for the setting of a value of ten points on all stamps in each program. Tokens were assigned a value of one point each. Whenever a purchase was made which resulted in a point total not divisible by 10, the consumer supplemented her ration stamps by tokens to make up the odd amount, or received the appropriate number of tokens in change. The tokens were freely circulable, the first and only true circulating medium in the rationing monetary system.

The system accomplished several desirable results. The consumer had to add only stamps worth 10 points each, which was much simpler for her. As a consequence, the lines in stores moved much more rapidly. Second, the sorting problem was completely eliminated, and, because 10 is such a simple figure to work with, even counting was made slightly easier.

Finally, and most important, a cut of well over half was made in the volume of stamps. Instead of 12 blue stamps per month, only 5, each worth 10 points, were needed. Instead of 16 red stamps, only 6 were needed. Because both the trade and consumers adjusted readily to the use of tokens, the net result was a rationing system that was not only much less bulky and cumbersome, but far simpler as well.

Determination of Quantity of Tokens Needed

Before it was possible to enjoy the advantages of the token system, a number of major problems had to be solved. Among the earliest of these was to estimate how many tokens would be needed. Both the matter of expense and the desire to avoid unnecessary use of critical materials pointed to the desirability of producing as few tokens as possible. At the same time, having too few when the program was launched might well prove disastrous.

There were no ready guides for OPA to follow in making this determination. Assistance was sought at the Bureau of the Mint, but the distinctions between the use of subsidiary coin and ration tokens were so great that comparisons were meaningless. The retail food trade was also approached for help. They were unable to separate the problem from their monetary change problem, in which they are always in the position of paying out much more than they receive. They felt they would be drawing tokens from banks consistently and paying them out to consumers, forgetting that consumers would be able to spend them only in food stores.

The banks could give no real assistance, except to caution conservatism in having plenty on hand. The OPA field organization felt similarly, dreading above all else the possibility that supplies might be exhausted. In the final analysis the decision had to be based in large part on guess and hunch.

The major point of departure was the known fact that, although some 128,000,000 ration books were outstanding, there were only some 40,000,000 family units and there was not likely to be more than one person marketing for any one unit at any one time. Since the number of tokens disbursed by a store would hinge on the number of customers rather than on the number of books, it followed that OPA could calculate that there were 40,000,000 potential token receivers. The "change," that is, from a 67 point purchase would be the same as that from a seven point purchase regardless of the number of books involved.

Another fact was also of significance. On all rationing expenditures, disregarding those cases where consumers gave up tokens, the average number of tokens disbursed by stores would always be approximately 4.5 in each program.² It was simple to predict, therefore, that the total number of tokens needed in each program to finance the first purchase of every shopper, assuming none were returned before every shopper made one purchase, was 4.5 times 40,000,000 or 180,000,000.

Having come thus far on statistically solid ground, it was possible to estimate the reserves that would have to be provided for in OPA storage, in the banks and in retail stores, at least within reasonable limits. The major unknown, however, then injected itself, to wit: what would the housewife do with the tokens once she received them? This unknown was so large and had such dangerous potentialities as to render almost meaningless any calculations such as the foregoing.

There was no substantial reason why any housewife should hold more than nine tokens at any given time. It was not known, however, how rationally she would act, or, stated in another and better

² If purchases were evenly distributed among the ending digits zero to nine, the average would be exactly 4.5.

way, how irrationally she would act, and almost any estimate was as good or bad as the next. If her preference between the two types of currency ran to stamps, the number of tokens required would be relatively few; if, on the other hand, she would tend to spend her stamps first and hold her tokens until her stamps were exhausted, the number of tokens used would be very large.

An important factor bearing on this issue was whether the stamps would retain expiration dates or not. This question was all important during the period when the attempt was being made to determine the token requirements. The amount of conscious consumer hoarding of tokens would be considerably greater if the stamps expired periodically, since the tokens would be "better" currency, in the sense that they would not suddenly lose their value, and would not have to be watched to assure that they were spent in time.

On the assumption that stamp expiration dates would be eliminated, the decision was tentatively reached in the fall of 1943 to have 900,000,000 tokens available for the beginning of the program, 55 percent of these to be red and 45 percent blue. From the foregoing comments it should be clear that this figure was little better than pure guesswork. Actually, it was the maximum number of tokens that could be made with the fiber that was available, so that the decision was really that such a quantity would permit the program to begin.

The distribution between red and blue was also a guess. While the number of unspent blue stamps was greater than red, which led to the possibility of greater hoarding in that program, this factor was believed more than overbalanced by the greater frequency of purchase and the lower average point value per purchase in the red program.

The original estimate of 900,000,000 was placed in jeopardy by a program decision to retain expiration dates on stamps, at least until it was demonstrated that this procedure was unwise. There was reluctance to abandon expiration dates for fear there would be less control effected as unspent backlog increased, and this school of thought (which prevailed) held that expiration dates could be eliminated if it proved necessary after tokens were introduced. The opposite point of view was that Gresham's law would operate to cause a great drain on the tokens which would force the abandonment of expiration dates under duress. This might lessen its effect because consumers would still feel that OPA might cancel stamps without notice but could not take such a step with tokens.

The decision was made to retain expiration dates on stamps *pro tem*. As a result, and also because of fears in the field organization and elsewhere, the size of the tokens was reduced to permit more to be made from the same amount of material, and the quantity was increased to 2 billion, with the same percentage distribution between

red and blue. Except for the fact that the smaller size was less convenient to handle and created some problems in coin-operated devices, it was of course advantageous to have the additional supplies available. The figure removed all doubt as to sufficiency, and the unused tokens were available for use as replacements in subsequent months.

The contract for 2 billion tokens was let in November of 1943, and ultimate delivery was completed on February 27, 1944, the date on which the token program was launched. During that period tokens were manufactured at an average rate of 20 million per day, reaching a peak of 50 million daily toward the end of the period.

The Distribution of Tokens

The distribution problem was simplified considerably by the adoption of a standard box and a standard carton. The tokens were machine counted into boxes holding 250 each. Twenty boxes were then packed in a carton, each carton therefore holding 5,000 tokens. Most of the tokens were shipped direct from the manufacturer, of which there was only one, to the banks, though some use was made of OPA's eight distribution centers as supplementary distribution points. All shipments to banks were in full cartons, so that the minimum number of tokens a bank could order was 5,000, and all dealings between banks and the trade were in full boxes, so that the minimum number of tokens a retailer could obtain was 250. While this meant that, on the average, every bank had to have 2,500 more tokens than it needed, and every retailer 125, it would have been utterly impossible to have made the distribution in loose tokens or odd amounts.

The distribution problem of course, was to get the proper number of tokens into a half million stores, without getting so many as to exhaust the supply. Emphasis was placed on stocking each store with enough to last a full week, even if none returned. OPA felt that, if this was done, the stores could "get the feel" of the program by the end of that week and handle the problem themselves from there on.

The retail stores were subject to two opposite forces. Their traditional fear of running out of change led them to want a large supply of tokens "just to be sure." On the other hand, they were required to pay ration currency to a bank in order to obtain tokens, which meant tying up ration currency that could otherwise be used to buy goods. This led them to want to limit their supply of tokens.

OPA had to assist retailers in the solution of this problem. The best method would have been to tell the stores to multiply the number of sales they had in a week by 4.5 (the average number of tokens given as change in each transaction) and add 10 percent as reserve. This method was not chosen because very few stores knew how many

different sales they make in a given period of time, and even fewer knew how many such sales involved rationed commodities.

On the other hand, the stores did know how many red and blue points they collected in a given week. OPA knew, from studies made in other connections, that the average rationing sale was between 20 and 25 points. Since each sale would require five tokens on the average (rounding out 4.5), one token would be required for every five points spent in the store. The stores were accordingly instructed to have on hand tokens equal to one-fifth their weekly point income in each program.

Another figure generally known was the allowable inventory. In processed foods it was three times the number of points collected by the store in March of 1943, in meat the number collected in two weeks in April of 1943. An alternative method was therefore suggested to retailers, namely, that 2 percent of the blue allowable inventory and ten percent of the red allowable inventory would give the required number of blue and red tokens, respectively. Unless the character of a store's operation had changed considerably, the results of each of these methods would be approximately the same. The stores were instructed to make these calculations, take the lowest, and add 25 percent as a reserve.

The result was handed on a form to the bank at which the retailer expected to get his tokens.³ This was done before January 8, 1944; no ration currency had to be surrendered at that time but it was made clear that this would be necessary when the tokens were available.

It was assumed that the banks would be able to place their orders with OPA by totaling the orders they received from retailers. Actually, the response from retailers was not great enough to enable them to do this and they had to make a good many estimates on their own.

In an effort to save money and to avoid an undue burden on many banks, arrangements were made to ship tokens directly to the warehouses of some of the larger chain retailers. Through the National Association of Food Chains, 47 of the largest chains, having 165 different warehouses, participated in this direct shipment program. These 47 chains were sent 16,421 cartons of red tokens and 19,228 cartons of blue tokens (a total of about 250,000,000 tokens), or about 14 percent of all tokens shipped prior to the beginning of the program. The National Office collected ration checks from each of them for the tokens. Some tokens were saved in this process also, since most of the larger chains needed less tokens per 100 points of sales than the smaller independents because their typical sale was for a larger number of points.

Bank orders were received during January and February, 1944. OPA felt that it should give some assistance to the banks as well as

³ This form was printed and distributed by food trade associations.

to the retailers and also that a system for screening bank requisitions would be necessary to assure that the token supply would not be exhausted.

The first step was to divide all banks into two groups. The 4,000 banks with total resources of less than \$1,000,000 were informed that in all probability one carton of each color would fill their complete needs, that they would be forwarded those two cartons without requisition, and that unless they had reason to believe that 5,000 tokens of each color would be insufficient, they need do nothing at all except await receipt of the shipment. Very few of these banks requested more.

For each of the other banks a card was made with OPA's estimate of the number of red and blue tokens it would probably need. This figure was one carton of tokens for each 75,000 points on deposit in that bank. This ratio was obtained by dividing the total number of cartons the retailer formula indicated would be distributed, by the total number of points on deposit in banks. This was rough, of course, but served as a basis for questioning a bank. Questioning was resorted to only when a requisition was more than fifty percent in excess of OPA's figure. Actually, it was necessary to question only 2 or 3 percent of the requisitions, and the procedure was adhered to less and less as time passed and it became apparent that there was no danger of exhausting the supply.

By January 27, all but 1,330 participating banks had placed orders. These were queried on that date and 610 placed orders immediately thereafter. The balance had either been carried erroneously by OPA as participating banks or had been branches of a system that had ordered centrally.

The distribution was handled from an OPA office in the manufacturer's plant in Cincinnati. At the peak of activity there were from 45 to 50 employees of the Railway Express in the office sending 17 truckloads, or 50 million tokens, per day to banks the country over. All shipments were handled on a money basis for security reasons. On the day the program started, February 27, 1944, every requisition that had been received had also been filled. By that date, 740,305,000 red tokens and 525,160,000 blue tokens had been sent to the banks. The program was able to get off to a good start with ample supplies of tokens throughout the country.

Quantities of Tokens Used

In the analysis of the outflow of tokens subsequent to the launching of the programs, two factors are of particular significance. The first was the stamp expiration date matter which has already been discussed and which placed a premium on the tokens. The second was that the

last series of brown meat stamps from War Ration Book II and of green processed foods stamps from War Ration Book IV, worth one, two, five, and eight points, remained valid until March 20. While these stamps remained in some ration books, the holders of such books rarely needed tokens. The demand for tokens was accordingly reduced by the existence of these stamps.

Token inventories in banks remained remarkably steady, and judging by reports from retailers, no substantial inventories were being built up at that level. The tokens sent from the manufacturer to banks, therefore, may be taken as an indication of what was being withdrawn by consumers. These figures follow: ⁴

The average number of cartons of tokens ordered per day by banks

Week ending—	Red	Blue	Week ending—	Red	Blue
Mar. 4, 1944.....	1, 232	1, 097	Apr. 22, 1944.....	1, 150	817
Mar. 11, 1944.....	169	137	Apr. 29, 1944.....	(1)	(1)
Mar. 18, 1944.....	653	342	May 6, 1944.....	669	477
Mar. 25, 1944.....	2, 538	1, 266	May 13, 1944.....	235	219
April 1, 1944.....	2, 104	1, 276	May 20, 1944.....	238	233
Apr. 8, 1944.....	1, 514	897	May 27, 1944.....	389	266
Apr. 15, 1944.....	1, 067	764	June 3, 1944.....	192	169

¹ Not available.

The low rate of withdrawal in the early part of March and the sudden increase in the week ending March 25 are accounted for by the continuing validity of the green and brown stamps until March 20. When the increase came it was such as to throw a genuine scare into OPA, creating the possibility of running out of tokens. At the peak, over 12½ million tokens daily were being withdrawn, and by the end of April a billion red tokens and three-quarters of a billion blues had been shipped. OPA had only 250,000,000 of each color remaining, which at the peak rate, was only 18 to 20 days supply. It required two months to manufacture more.

The only possible step was to eliminate the expiration dates on the stamps, a step that was taken on April 4, 1944 ⁵ with a commitment that stamps would not be cancelled in the future without prior notice. This put the two types of currency on a par with one another and the token withdrawals subsided quickly.

Token withdrawal remained low through the summer and in September and October the blue tokens were withdrawn from circulation. This was done in anticipation of an early end to processed foods rationing. When this did not occur, the program continued to operate with stamps worth 10 points each but without “change”, which was a substantial handicap.

⁴ The table was compiled from the daily reports received from the token distribution center.

⁵ Amendment 21 to Revised Ration Order 13, May 2, 1944, 9 F. R. 3708. Amendment 125 to Ration Order 15, May 2, 1944. 9 F. R. 3708.

In September a number of items were removed from the red list and the demand for red tokens fell even more. The daily withdrawal was never in excess of 150 cartons and frequently well below this figure.

On December 26, 1944, all outstanding meat stamps were suddenly invalidated and many meat items returned to the rationing list.⁶ At the same time expiration dates were returned to the stamps, though in a modified form. Each month's set henceforth would expire four months later. It was assumed that this device would kill off stamps that were not needed and avoid the building up of such a large backlog of unspent stamps, but would not put an appreciable premium on the tokens.

The demand for tokens immediately shot upward. The essential cause was probably the unwillingness of the people to trust OPA's assurance that no invalidation would ever be undertaken in the future without notice (a promise already made once and broken). During January of 1945, the withdrawal rate was very high, reaching 2,175 cartons on one day. As the shock of the invalidation was dissipated, the rate declined, though it remained substantial at around 600 cartons per day until summer when the end of meat rationing came into sight.

During the life of the respective programs, about one billion blue tokens were sent to banks and about $1\frac{3}{4}$ billion reds. In each case, the banks maintained an inventory of slightly over 200,000,000 tokens. The balance were issued to the trade.

Bank Procedures

The introduction of ration tokens required a number of new procedures for the banks. Previously, all ration currency received by a bank was eventually either destroyed by it, forwarded to OPA for destruction, or, in the case of ration checks, cleared for debit. Tokens, however, were a circulating medium, like cash, and had to be held for disbursement after receipt. The new circulating medium also put the banks for the first time into contact with nondepositors who came to the banks to obtain tokens or to return them.

The new procedures were carefully outlined in a 10-page instruction entitled "The Ration Token Program."⁷ It has been pointed out that the banks requisitioned tokens from OPA in cartons of 5,000 only. In turn, all their transactions with the trade were in full boxes of 250 only; they never had occasion to handle loose tokens. The boxes of tokens originally requisitioned from OPA were sealed with red or blue tape and were issued by the banks without breaking the

⁶ Amendment 23 to revised ration order 16, December 26, 1944. 9 F. R. 15056.

⁷ Supplement 3 to the Bank Operation Memorandum, February 1, 1944.

seal. From the point of view of bank workload, this fact was of real significance.

Tokens were issued to depositors in return for a ration check made payable to "tokens" in the proper amount. A nondepositor obtained tokens by presenting stamps, on a special gummed sheet holding 25 stamps, each filled gummed sheet being redeemable for one box of tokens. The checks or gummed sheets received for tokens were handled by the bank as though they had been items in a deposit.

There were occasions when a retailer would accumulate an excess supply of tokens. In such an event he was permitted to return them to the bank. If he was a depositor he merely deposited them to his account for credit using a regular deposit ticket. If he did not have an account, he exchanged them at a bank for the bank's own ration check made payable to him in the proper amount. This check was very similar to a cashier's check in commercial banking. For this purpose each bank was instructed to open a meat and a processed foods account in its own name on its own books.

This feature of the plan was discussed at great length before being adopted; some bankers originally objected to it on the ground that it would place too much of a burden on the teller. It was quite true that the ration banking program had always attempted to keep the work away from the tellers and concentrate it in the proof and book-keeping departments. There seemed no logical alternative, however, and the new procedure was adopted, with some reassurances from the feeling that there would be only infrequent use of the privilege by the trade.

The trade and the banks were instructed that all token transactions with banks had to take place in the standard container. Empty containers were furnished the banks to be used as necessary. Each container had imprinted on it four endorsement spaces so that it could be used four times. Inside, each contained five slots, like a poker chip box, into which fifty tokens would fit. When filled, therefore, the box contained 250 tokens. The idea of using such a box, like many other features of the token plan, was suggested by the American Bankers Association committee.

This automatic counting feature was actually not foolproof, by any means, since in the process of manufacture, the thickness of the tokens could not be held exactly true, so that there was some variation in thickness among tokens. This gave rise to a shortage problem which was a knotty one to solve. The boxes from the manufacturer were all machine counted, so that there was little chance of a shortage in the original boxes. When a box had been used a time or two, however, it was quite possible for a bank to receive it and reissue it to a retailer who claimed it contained less than 250 tokens.

It was feared, during the planning stages, that this problem might become serious. The slotted box had been designed to make it unnecessary for the banks to count the tokens individually, a task which, it was felt, would have been too costly and time consuming. They were instructed that they were "not required to count the contents of boxes of tokens deposited or exchanged but should exercise reasonable diligence in accepting such boxes and should examine the contents to determine if all tokens are of a like color and fill each slot in the box properly."⁸

The solution reached for the shortage problem was evidently the proper one since no trouble ever developed. In the first place, it was decided that no shortage claims in sealed boxes received from the manufacturer would be allowed. Secondly, no shortage claims of less than six tokens in any one box would be allowed. Thirdly, when a shortage claim was made not in the two categories just mentioned, the bank was permitted to make up the shortage if it felt that the claim was bona fide, but was required to report to OPA's district office the name of the claimant and the name of the last endorser on the box. It was presumed that this would permit OPA to have the name of any merchant persistently shorting boxes or claiming shortages. These requirements and the low rate of circulation of token boxes made the shortage problem nonexistent in practice, since no case ever came to the attention of the National Office.

The banks made use of a token ledger which was called a token control sheet. Receipts and disbursements were recorded on this ledger and a running balance maintained, which of course controlled the physical inventory on hand. The proof sheet was also expanded to include a debit and a credit column for tokens, thus tying the token operations to the over-all ration banking transactions.

From the point of view of the banks, as well as the trade, the token program was highly successful. One of its major purposes had been to reduce the amount of paper in circulation to manageable proportions. That this was accomplished can be seen from the fact that for the quarter ended December 31, 1943, the banks received for deposit 20,000,000 items in the blue program and 41,000,000 in the red program. For the quarter ended September 30, 1944, these figures were 8,600,000 and 16,800,000, respectively.⁹ While checks and certificates were included in the item figures, the reduction is almost exclusively attributable to the reduction in the amount of paper in circulation.

Token activity was never large after the initial distribution. For the entire three months ending September 30, 1944; the average bank disbursed only 100 boxes and received 20, which means appreciably less than that number of transactions. The result, therefore, was a

⁸ Ibid., p. 3.

⁹ From reimbursement claims submitted to OPA by the banks.

real reduction in the bank workload, which was, of course, only one of the many advantages brought by the tokens.

Withdrawal of Ration Tokens

Shortly before the ration tokens were issued, a sharp controversy developed between OPA on the one hand and the National Automatic Merchandising Association and the American Transit Association on the other. The two associations were seriously alarmed over the possibility of widespread use of ration tokens in coin-operated machines. The merits of the controversy are not germane to this discussion, but one consequence was important. On May 16, 1944, the Price Administrator informed the House Committee on Banking and Currency in open hearings that OPA would withdraw ration tokens from circulation upon the termination of rationing.¹⁰ It was felt that this would eliminate the real hazard of token misuse which could be expected to develop after the tokens no longer had a rationing value.

To fulfill this commitment, the blue tokens were withdrawn during September and October of 1944. This was nearly a full year before the termination of processed foods rationing; in the fall of 1944, however, all signs pointed to an imminent end of the program, and the withdrawal took place in anticipation of immediate termination.

Public announcement was made early in September that blue tokens would become invalid for consumers on October 1. This had the effect of stimulating consumers to spend tokens, though the stimulus was weakened somewhat by the liberality of the ration at the time. The trade was informed at the same time that blue tokens would become invalid for them unless presented to a bank before October 9, a date later extended to October 16. They were permitted to use envelopes for tokens where token boxes were not available, since the supply of regular token containers was insufficient to take care of the wholesale return of tokens.

On September 9, the banks were given their instructions.¹¹ They were to stop disbursing tokens on September 16. On September 22¹² they were told to ship blue tokens to the OPA warehouse by October 31, 1944, though many made shipments after that date. They were also told that "At the time the final shipment is made, the 'balance column' should show 'zero' and the blue token control sheet may be considered closed, and transferred to a dormant file."

Concurrently, arrangements were made with a small number of large food chain organizations for direct return of tokens to OPA,

¹⁰ U. S. Congress, House of Representatives, 78th Cong., 2d sess., hearings before the Committee on Banking and Currency on H. R. 4376, vol. 2, May 16, 1944, p. 2009.

¹¹ Supplement 20, Bank Operation Memorandum, September 9, 1944.

¹² Supplement 21, Bank Operation Memorandum, September 22, 1944.

by-passing the banks. Ration checks were issued them as the shipments were received. Arrangements were also made for the return of those few which had come into possession of the local boards.

At this time OPA had forwarded 942,000,000 blue tokens to banks. At the end of the process of withdrawal, 450,000,000 had been returned, or something less than 50 percent. The major reason for the disappointingly small rate of return was the apparent approaching end of the program; under the circumstances, neither the consumers nor the trade made a real effort to avoid losing tokens after receiving notice of pending invalidation.

Following the retirement of blue tokens, the trend of the war and the supply situation changed suddenly and rationing had to be continued until August 1945. The value of blue stamps had to be retained at ten points each; the lack of the change-making tokens was keenly felt in the blue currency system.

The red token retirement was even less successful and considerably less well managed. Because of the speed with which the war ended, it was not possible to retire the tokens before the program ended.¹³ The revocation amendment, therefore, merely required the trade to turn in tokens to banks. No effort was made to recapture those in consumer hands. While many of the larger retail establishments complied with the requirement to return tokens, the recapture was not substantial, numbering about one-seventh of the 1¾ billion shipped to banks during the program.

The final chapter in the token program was written in April of 1946, when all blue and red tokens were sold to the Government of Greece for use there in rationing.

¹³ It is highly questionable that this could have been done anyway without endless confusion. Possibly a return to the old 8, 5, 2, and 1 denomination system could have been effected; the use of separate stamps as 1-point change-makers was also considered. But these would have been ineffective devices in the decontrol atmosphere that prevailed immediately after V-J day.

CHAPTER IX

Financial Reimbursement to Banks

The services performed by the banks in the rationing programs were paid for by the Government. Unlike most war purchases, however, the attempt was made to fix the fees at a level which would cover, in the average bank, direct expenses only, with no allowance for heat, light, rent and other overhead expenses. Specifically, the reimbursement schedule was designed to cover the cost of direct labor, stationery, and other supplies, and depreciation of machines while in use on ration banking work.

OPA felt that no more should be paid the banks for this wartime activity, and this position was readily agreed to by spokesmen for the banks. Each time a cost survey was made, therefore, the accountants were so instructed by OPA. The following paragraph sums up the accounting basis used in the first and subsequent surveys:

In ascertaining the actual costs of the various banks we have included a proper proportion of each person's salary covering the estimated time spent in the handling of the activity or accounts of the ration banking plan. We have also included a proportionate share of unemployment, old age benefits, group life, blanket bond and workmen's compensation insurance, as they represent a part of the cost of holding the employee. In addition, we have included stationery actually used, postage expense where it was incurred, and a percentage of the maintenance and depreciation on adding and posting machines used in this work.¹

When the reimbursement schedule was originally adopted in January 1943, and when it was changed on three subsequent occasions, it was done by negotiation with a subcommittee of the American Bankers Association's Ration Banking Committee. The rates, when agreed upon, were written into General Ration Order 3, a regulation with the force of law binding on all banks wishing to participate in the ration banking program. Intimate participation in the decisions regarding financial changes in the regulation was an important factor in giving the Association a sense of real responsibility in the program. It will be remembered that any bank was perfectly free to withdraw at any

¹ Driscoll, Millet and Co., "Report to the Office of Public Administration on Study of Costs of Operating Ration Banking in Albany, N. Y., Area." December 29, 1942.

time it wished. The Association was in a position to render great assistance (and did so) in keeping participation at a peak. Since reimbursement was always extremely important to the banks, the Association was able to do a much more effective job of keeping the banks in line since it took a real part in establishing the schedule.

The Association group which negotiated for the banks was under obligation to take any tentative agreement reached to the full ration banking committee and certain of the Association officers for approval. Similarly, the OPA group had to obtain approval from its budget office before an agreement could become final. Actually, both these clearances were formal only; in no case was any agreement changed after the negotiations took place.

Two other general points should be made. The bankers, of course, were interested in establishing generous rates, but they were sincerely anxious to avoid a level of rates which would offer any ground whatever for a charge of profiteering. OPA was interested in keeping the rates as low as possible, knowing that the total sum was one which might well attract a Congressional investigation and being anxious to establish a reputation for economical operation, but they were aware that if the fees were too low they would lose participating banks. This the program could ill afford. These forces acting on the two parties tended to narrow the area of disagreement, though it was still substantial on occasion.

Finally, both sides were anxious to make the fees appear generally sound, and the accountants' recommendations were usually followed. Nevertheless, both had a healthy skepticism of bank cost accounting, and both were more interested in the welfare of the small banks than the large. The reason for this was that there were many more small banks, and there was no danger that the large banks would withdraw from the system.

The First Reimbursement Schedule

It will be recalled that the banks in New York State had carried out the experiment in ration banking without remuneration. During the experiment, OPA engaged a firm of bank cost accountants to study the operation and to recommend, first, a basis on which reimbursement could be made, and second, the amount of reimbursement that should be paid. This firm submitted a report with recommendations on December 29, 1942, and the following day OPA and the bankers' committee convened to consider this report and reach agreement.

OPA had hoped that in the interests of simplicity, it would be possible to pay a fixed fee for each account a bank had, thereby working rough but simple justice. The report demonstrated, however, that there was no similarity in terms of cost between a gasoline and a sugar

account. Gasoline had almost no check activity but very heavy but infrequent deposits. Sugar activity was more frequent and moderate. Actually the cost of the average sugar account was computed at \$0.34 per month;² of the average gasoline account, \$9.90.

On the other hand, a deposit slip cost the same to process and credit regardless of program, and a check was handled identically in each program. It appeared sound, therefore, to base the reimbursement on activity, and the accountants so recommended.

The cost study was made in 15 of the 18 banks in the experimental area. Essentially, it was a time study, so far as the labor cost was concerned. In each bank, it was determined how many credits were posted in an hour, and this figure was then translated into a cost per credit entry by dividing it into an hourly wage. The resultant figure differed significantly from bank to bank, and the fees recommended were based on computed medians.

As a result of the New York studies, the accountants recommended the establishment of the following schedule of fees:

For opening each account-----	\$0. 33
For each deposit-----	. 05
For each item included in the deposit ¹ -----	. 0064
For each check paid-----	. 046
Maintenance per account per month-----	. 10

¹ An item was defined as a check, a certificate, or a gummed sheet.

These figures were represented by the accountants as being actual cost of operation, and the adoption of the recommendation, according to them, would have covered the costs of the average bank. Incidentally, the wage figures used were average wages for the type of employee studies rather than the wage of a particular employee.

But OPA felt that some changes had been made in the program since the study had been completed which warranted somewhat lower fees, though any precise measurement of their effect was impossible. Among these, the following were considered to be the most important:

1. The need for checking serial numbers on checks and of obtaining "missing voucher statements" from depositors was eliminated, and the entire clearance system was very much simplified.
2. The examination of checks for expiration dates was eliminated.
3. Statements were to be prepared quarterly instead of monthly.
4. OPA reports were to be prepared monthly instead of semimonthly.

In addition, it was felt that the banks would be able to handle the program more efficiently under instructions contained in the well-organized Manual of Operating Procedure than under the experimental conditions of trial and error.

² That is, the total cost incurred for a month by all banks for all sugar accounts divided by the number of sugar accounts.

After considerable discussion, agreement was reached on the following schedule of reimbursement:³

For opening an account.....	\$0.30
For opening an additional account in the same name.....	.05
For each deposit.....	.05
For each item included in the deposit.....	.005
For each check paid.....	.04
For each account maintained, per month.....	.10

It was agreed that the cost data gathered during the experiment might prove to be unrepresentative, and that each side, therefore, should have the right to ask for a new schedule at any future date.

The report and recommendations of the accountants drew no distinction between the cost of opening one account by one individual and of opening subsequent accounts by the same individual. Since only gasoline and sugar were included in the experiment, there were very few instances in which more than one account was opened by one individual. Later, however, this could be expected to occur frequently, since at least four food-rationing programs were in prospect.

The report had shown that of the \$0.33 attributed to the cost of opening an account, \$0.25 was allocated to the time required by a bank employee to explain the system to the prospective depositor, a cost that would not recur when the same individual opened his next account. Hence the differentiation between first and subsequent accounts.

It will be noted that the maintenance and deposit charges followed the cost recommendations, whereas the other items were all lower in the final agreement. These reductions were an attempt to reflect the procedural changes, mentioned previously, which tended to reduce the costs of operation. The schedule approximated fairly closely the accountant's recommendations, though it should be pointed out that the difference between \$0.064 and \$0.05 in the deposit charge and between \$0.046 and \$0.04 in the check charge represented substantial sums in the annual OPA budget.

Thus were the first reimbursement rates established. Only gasoline, sugar, and coffee were covered originally. One decided advantage of the sort of schedule agreed upon was that it was unnecessary to alter it in any way as new programs were added; each fit into the existing reimbursement structure.

The Renegotiation in August 1943

The original reimbursement schedule was first announced to the banks by inclusion in the Manual of Operating Procedure which was released about January 20, 1943. There was very little reaction from them at first as to its fairness, unquestionably because it was fairly

³ General Ration Order 3, section 1305.411 (c), 8 F. R. 865.

complicated and because so little was known about the activity that would develop.

Reimbursement was first made shortly after March 31, 1943, covering the short quarter from the beginning of the program to that date. This occurrence, with the calculations many banks made as the program developed, created an adverse bank reaction as to the schedule's equity, and both OPA and the Association received more and more representations that it was unduly low.

While there was no formal request made that the schedule be revised upward, the subject was discussed many times during the spring of 1943 and there came to be a tacit understanding between OPA and the Association that action should be taken. On April 30, the Association informed the banks that "In our conferences on this subject there has been complete agreement by OPA that reimbursement as now being paid does not meet actual costs and should be adjusted beginning with the next period, July 1."⁴ On May 25, OPA assured the banks that "arrangements to review the ration banking reimbursement schedule are now being made."⁵

While the early figures were not particularly reliable, because of late and uncertain bank reporting and because new programs were being added so rapidly, OPA estimated that it was reimbursing the banks at an annual rate of \$10,400,000 by midsummer of 1943. Since this was a substantial portion of OPA's total budget, there was no desire to raise it. On the other hand, the agreement with the spokesmen for the banks contemplated that the rates would be kept at a level which returned direct expenses to the average bank.

Accordingly, it was determined that another cost survey should be made in order to ascertain whether the current fees were in fact too low. During April of 1943 the services of the accountants who had made the original cost survey in New York State were engaged again and a new survey was made in May by them.

It was possible, in the course of the new survey, to obtain a more representative group of banks, particularly in a geographic sense. Actually 29 banks were surveyed, and these were located as far west as Chicago and as far south as Georgia. They were divided into size groups, according to total resources, as follows: ⁶

Number of banks :	Total resources
7_____	\$2, 500, 000 and under.
7_____	2, 500, 001 to 7, 500, 000.
6_____	7, 500, 001 to 15, 000, 000.
4_____	15, 000, 001 to 50, 000, 000.
5_____	50, 000, 001 and over.

⁴ Bulletin No. 4, "Ration Banking, a report to the banks by the Ration Banking Committee of the American Bankers Association." April 30, 1943.

⁵ Information Memorandum No. 7, May 25, 1943.

⁶ Driscoll, Millet & Co., "Survey of Ration Banking Costs for the Month of May 1943." July 15, 1943. (A report to the Office of Price Administration.)

The survey demonstrated what income each group received from OPA during the month of May, and what its expenses were for the same period, expense being defined in the same way as in the earlier survey. The result showed that the 29 banks had an aggregate income of \$8,259.25, expenses of \$9,930.79. They needed, therefore, an increase of 20.2 percent to reach the break-even point. But within the various size groups, great differences were apparent. The smallest banks needed a 66.5 percent increase, the largest 43.2 percent, whereas the three middle groups were very close to the break-even point. Apparently the small banks were having difficulty because activity in their accounts was comparatively low, and because they were unable to work out an adequate division of labor; frequently the work was handled by a junior officer in his spare time. As for the large banks, they seemed to have trouble with the large wholesale deposits, many of which had to be returned for correction, and of course they customarily used more elaborate internal control systems.

At any rate the survey demonstrated that certain revisions were called for. The report was submitted to OPA on July 15, 1943; while it was being made the American Bankers Association was conducting a questionnaire survey of over 700 banks. While these data were not subject to precise tabulation, they tended to bear out the conclusions of the OPA survey, though they showed generally higher indicated costs. On August 16, 1943, OPA and ABA met to negotiate a new schedule, after all the data had been carefully studied by both groups. Greatest reliance was placed on the OPA survey. The existing fees and the accountants' recommendations are shown below:

	<i>Current fee</i>	<i>Recommendation</i>
For opening the first account-----	\$0.30	\$0.62
For opening a subsequent account-----	.05	.18
For each deposit-----	.05	.045
For each item in the deposit -----	.005	.01
For each check paid-----	.04	.03
For each account maintained per mo-----	.10	.09

At the meeting immediate agreement was reached that the deposit cost should remain at \$0.05 and that the item cost should be increased from \$0.005 to \$0.01. After some discussion agreement was also reached at \$0.60 and \$0.20 for opening first and subsequent accounts, respectively. No great importance was attached to these latter fees since most accounts were already opened.

ABA suggested a substantial increase in the maintenance charge, since responses to their questionnaire study indicated that most banks felt strongly that this particular fee was quite low. OPA refused to yield on this point, however, in view of its cost survey. (It should be remembered that this survey was conducted by a highly reputable

private firm, well thought of by banks, whose motives could not be suspect.) The maintenance fee, therefore, remained at \$0.10 per month.

The greatest amount of discussion revolved around the check fee. OPA was anxious to reduce this from \$0.04 to \$0.03, not only to save money but to show that reductions as well as increases would be made where indicated. ABA argued strenuously against such a move, partly on the ground that it would be dangerous to the program in view of the rather antagonistic feeling of the banks stemming from the verification struggle. A more telling argument, however, was the demonstration from OPA's own figures that whereas \$0.03 might be the indicated check cost for all the banks in the survey on the average, such a fee would in fact place the small banks in the red almost without exception. With this fact established, OPA yielded and agreed to allow the figure to remain at \$0.04.

An important new fee was added at this negotiation. The cost accountants had recommended a "reports and regulations" charge, presumably to reimburse each bank for the work involved in submitting reports to OPA and keeping abreast of OPA instructions which came to banks in substantial volume. Actually, this fee seemed to be the only way that reimbursement to smaller banks could be raised sufficiently without giving an unwarranted income to the larger banks. The reports and regulations charge came to be the largest single element in the schedule for the small bank, but was almost insignificant to the large bank, since it was a flat sum given to each bank regardless of size.

The cost survey had indicated a reports and regulations charge varying from \$13.24 per month for the smallest group to \$40.82 for the largest. Agreement was reached at \$20 per month, and this new fee was incorporated in the reimbursement schedule.

This fee created a problem which, while not particularly serious, was never really solved. In many States branch banking is prohibited, in others it is confined to city or county limits, and in still others it is permitted on a State-wide basis. At the time of these negotiations the largest branch system had just under 500 branches throughout California, while another bank in Chicago had about the same total resources with no branches. And in New York City a bank of about the same size had nearly 100 branches, all located within the city limits. It would be patently unfair to grant \$20 per month to the main office and to each branch in each of those cases.

The suggestion was made that the fee be paid to each of the branches when the branches submitted reports directly to OPA, but not when the report for the system came through the main office. Aside from the difficulties of administering such a provision, it was not considered

theoretically fair to do so. To illustrate, of two branch systems in New York City, one used its branches as teller windows only in ration banking. Deposits were accepted at the branch but all items were then sent to the main office where the proving and posting were done. The other had its branches act as independent banks for ration banking, maintaining ledgers in each branch for depositors who banked there.

In the one case all reports were made centrally, in the other from each individual branch. But each had made its decision on how to operate in its own best interest at a time when there was no reports and regulations charge. To have given this charge to all the branches of one system and to none of the branches of the other could have had no defense.

The ultimate solution to the problem was a rough approximation of justice. The fee had been recommended as a device to implement the income of small banks. On the assumption that small banks do not generally have many branches it was decided to pay the fee to only the main office and a maximum of four branches. A bank with more than four branches would receive no more than \$100 per month as its reports and regulations charge. The figure four was of course completely arbitrary; as much or as little justification could have been advanced for two or seven. But it was simple and, with some exceptions to be noted later, it did not create many problems.

One final fee was written into the reimbursement schedule at this time. In June the banks had been instructed to verify the contents of 3 percent of the stamp envelopes deposited with them and had been told that OPA would reimburse them for this work. OPA's cost survey had been made for a period when banks were not verifying, but the accountants collected some data which was submitted as a separate report.⁷ The data was qualified with the statement that "we do not think that the figures are conclusive." Their studies showed that the average time per envelope varied from 1.7 minutes to 18 minutes, and they were reluctant to ascribe significance to an average of any sort.

They pointed to another experience which had made them reluctant to make any recommendation. In one of the New York City banks it took a teller 17 minutes, the assistant manager of the department 19 minutes, and a representative of the New York OPA office 23 minutes to verify an envelope containing 350 stamps. The best they could offer was that the fee should probably be between \$0.14 and \$0.25 per envelope. Both sides recognized that the function would not last long and that there would be no way of reaching a truly scientific figure. No great importance, therefore, was attached to the fee by either side. As a matter of fact the report of the conference shows

⁷ Driscoll, Millet & Co., "Data on 3 Percent Envelope Verification," August 13, 1943. (A report to the Office of Price Administration.)

that OPA originally proposed \$0.25 per envelope, ABA proposed the same figure, and agreement was reached at \$0.20.⁸

The announcement to the banks of the new rates was made by OPA on September 3.⁹ OPA stated that the rates "would allow the average bank to break even. . . ." At the same time, ABA announced the change to the banks stating that "the Committee believes that this schedule is equitable both to the Government and the banks."¹⁰

The effect on the OPA budget was substantial. The new reports and regulations charge added \$2,880,000 to the annual cost, and the new verification fee \$1,800,000 (this fee, however, was in effect less than a year). The deposit charge for the quarter ending September 30, 1943, was at an annual rate of \$4,250,000 whereas under the old rate it would have been half that. It may be remarked parenthetically that had the check charge been lowered from \$0.04 to \$0.03, the annual saving would have been \$1,115,000, for there was that much difference in that single penny. The increase in the charges for opening accounts may be ignored since the result was insignificant.

All of the changes were made retroactive to July 1 except the verification fee which was made effective on September 1 since prior to that date banks had no occasion to keep records of the number of envelopes verified.¹¹ The first full quarter when the new schedule was in effect, therefore, was the last quarter of 1943. In that quarter OPA reimbursed the banks a total of \$4,177,140 (13,160 invoices). This figure under the original rates would have been \$2,493,690, or 40 percent less.

The new reimbursement remained in effect for eighteen months. It was generally well received by the banks, with the exception of some of the branch systems which felt they were being discriminated against in the four-branch limitation. OPA was generally satisfied with the new schedule, although the feeling persisted that the check fee should have been reduced a penny. It was also true that, as the program wore on and was simplified somewhat, and as the banks became more efficient, costs began to decline while the fees of course held steady. It was these factors which led eventually to a reopening of the entire matter and an eventual lowering of the schedule.

Reimbursement for Ration Tokens

It will be recalled that ration tokens were put into circulation on February 27, 1944, and that with them came certain new functions for the banks. It was decided at an early date that an *ex ante* determination of fees for these functions would be unwise. It appeared more sensible to wait until there had been some experience under the pro-

⁸ Memorandum, L. J. Kroeger to Chester Bowles, August 26, 1943.

⁹ Manual Memorandum No. 8, September 3, 1943.

¹⁰ American Bankers Association, Ration Banking, Bulletin No. 6. September 3, 1943.

¹¹ Amendment 4 to General Ration Order 3, September 17, 1943. 8 F. R. 12611.

gram and then to establish the rates, making them retroactive to February 27.

When the plan was officially announced to the banks¹² this point was made clear. At that time the banks were asked to keep records of the number of transactions in which tokens were involved, that is, the number of times tokens (regardless of quantity) were deposited or withdrawn. This was done because it was not known at the time whether reimbursement would be on a transaction basis or on a box basis. Information on the number of boxes withdrawn and deposited would be readily available from the token control sheet so that no additional record would be necessary in the event that reimbursement should be based on the number of boxes issued and received.

In terms of agreeing on the reimbursement for tokens the most significant development in the weeks following the installation of the plan was the extremely light activity. After the tokens had been initially issued, they did not return to the banks in volume. This merely meant that regardless of what fees were agreed upon, not much money would be involved. The parties to the negotiation, therefore, were more than usually willing to compromise.

OPA met with the American Bankers Association on April 20, 1944 to negotiate the token reimbursement schedule. Three new transactions were involved: the issuance of token boxes, the receipt of token boxes either as deposits or in return for a ration check, and the issuance of the bank's ration check drawn on its own account, the last being very similar to a cashier's check.

OPA leaned toward establishing the fees for disbursement of tokens on a transactions basis, on the ground that it cost no more for a bank to issue 5,000 tokens against a depositor's check, for example, than 250. As a matter of fact, many of the larger banks issued tokens to larger depositors in unbroken cartons (holding 20 boxes or 5,000 tokens). This position was abandoned in the interests of administrative simplicity, since the data on the number of boxes handled was available from records already kept, and it would have been necessary to establish and maintain a new set of records to know the number of transactions that took place involving tokens.

The ABA, having won that point, proposed a fee of \$0.02 for each box disbursed, and \$0.02 for each box received. These figures came from a mail survey made by ABA of a number of banks. OPA had made no cost survey but had discussed the matter with accountants, and felt that \$0.01 per box would be adequate. Admittedly, this contention was based less on scientific cost analysis than any other position OPA ever took in a reimbursement negotiation. This again was

¹² Supplement 3, Bank Operation Memorandum, February 1, 1944.

because of the realization that the total amount of money involved would not be large regardless of the rates established.

Compromise was reached on \$0.02 for each box received by the bank and \$0.005 for each box disbursed. This was viewed as acceptable by OPA because of the conviction that far more tokens would be disbursed than received. Actually, this conviction turned out to be correct; about eight tokens were disbursed by banks for every one received. Incidentally, receipts of tokens from OPA were not to be reimbursed.

This agreement left only the bank's ration check to be paid for. Here again activity was very light and experience lacking. On the basis of the discussion with accountants, OPA felt that \$0.07 would be a fair figure, this to be in addition to the customary \$0.04 for debiting the check. The figure agreed upon was \$0.05, another indication of the comparative indifference of the bankers committee.

The token fees were made retroactive to the beginning of the program.¹³ On January 1, 1945, they were discontinued completely because they were of such minor importance and because their elimination greatly simplified the quarterly application for reimbursement by the banks.¹⁴ Between February 27 and December 31, 1944, OPA paid a total of \$92,971.09 to the 15,000 banks for their part in the token program. In retrospect this sum appears extremely small in the light of the key part played by the banks in the distribution and circulation of more than 2 billion tokens. Of the total sum, 44 percent was for disbursing tokens, 28 percent for receiving them, and 28 percent for checks written on banks' own accounts.

Reimbursement Reduction, October 1944

The most difficult of all the reimbursement negotiations was the final one, taking place in October 1944, and becoming effective on January 1, 1945. It resulted in a substantial reduction in the total amount paid to banks.

During the first half of 1944 a number of changes were introduced in the ration banking program which tended to simplify the banks' operations. Chief among these were elimination of expiration dates on most deposited items and the establishment of the verification centers.

Before the verification centers became operative, many banks had experienced difficulty in destroying ration currency. Ordinarily they did not receive enough volume to make it feasible to have the paper commercially reclaimed; in consequence, they had to evolve some ar-

¹³ Amendment 6 to General Ration Order 3, May 22, 1944. 9 F. R. 5426.

¹⁴ Amendment 11 to General Ration Order 3, December 19, 1944. 9 F. R. 14674.

arrangement for destroying it and the only safe way was by burning. Even where a bank had a coal-burning furnace the task was not easy, for gummed sheets in particular burned extremely slowly and had to be watched until completely consumed. The bank with an oil furnace had to make some other, usually time-consuming, arrangement.

The destruction expense was included in the per item fee in the reimbursement schedule. With the establishment of the verification centers, this cost disappeared, for it was then necessary only to wrap the items, affix a postage-free label and mail. For most banks this procedure was a great deal more convenient and less expensive.

Expiration dates on most stamps, it will be recalled, had been eliminated shortly after the institution of ration tokens early in 1944. The significance of this action lay in the fact that checking items for validity dates had been one of the most important elements in the proof cost. In addition, expiration dates on shoe and food certificates were eliminated on April 15, 1944;¹⁵ this action was if anything a greater contribution to ease of operation than the action with respect to stamps.

In addition to these developments, conversations with individual bankers led to the belief that costs of operation had declined to a point where the average bank was receiving reimbursement substantially in excess of its out-of-pocket costs. OPA determined, therefore, to reopen the matter of reimbursement with a view to a possible reduction in the fees. On July 5, 1944, OPA gave formal notification to the American Bankers Association group that it felt a review to be in order. The notification stated that "We feel that actual experience has shown many banks to be receiving excessive income from the ration banking service and that the present schedule of fees generally violates the original understanding between us, namely, that the reimbursement paid by the OPA should cover operating costs but not yield a profit."¹⁶

The Chairman of the Association's committee acknowledged this letter on July 12, stating that "We shall be glad to reexamine the present schedule of reimbursement fees. . . .", though adding the statement that "We rather doubt that many banks are receiving excessive income from ration banking services but, nevertheless, are most anxious to maintain the fee schedule on a basis in keeping with the original understanding."¹⁷

¹⁵ Amendment 9 to Revised Ration Order 3, April 15, 1944. 9 F. R. 3944. Amendment 24 to Revised Ration Order 13, April 15, 1944. 9 F. R. 3944. Amendment 127 to Ration Order 16, April 15, 1944. 9 F. R. 3944. Amendment 57 to Ration Order 17, April 15, 1944. 9 F. R. 3944.

¹⁶ Letter, Louis J. Kroeger to Wilbur Lawson, July 5, 1944.

¹⁷ Letter, Wilbur Lawson to Louis J. Kroeger, July 12, 1944.

The reply asked for time to frame a questionnaire on cost experience to be sent to about 200 banks, and also requested that the conference be postponed until after September 24, on which date the annual convention of the association would be held, at which all members of the ration banking committee would be present. This was agreed to with the understanding that any changes made would become effective on October 1, which was the beginning of an OPA fiscal quarter.

OPA immediately began a rather extensive cost survey in 31 banks in all parts of the country. These surveys were made during August and September, which, it may be noted, was just after the verification centers became operative. Several of the banks surveyed in the 1943 survey were resurveyed. The banks were grouped according to the following size groups:

Number of banks :	Total resources
7-----	\$3,000,000 and under.
8-----	3,000,001 to 12,000,000.
8-----	12,000,001 to 50,000,000.
8-----	50,000,001 and over.

The techniques in the previous surveys were again followed.

The report was submitted on October 6, 1944.¹⁸ It can be summarized most easily by a tabular presentation of the then current fees, the cost as found in the survey and the accountants' recommendation, as follows:

Item	Current fee	Cost	Recom- mended fee
Deposit-----	\$0. 05	\$0. 038	\$0. 04
Deposited item-----	. 01	. 004	. 005
Checks paid-----	. 04	. 029	. 03
Maintenance per account-----	. 10	. 073	. 08
Reports and regulations-----	20. 00	8. 36	10. 00
New accounts opened-----	. 60	. 33	. 35
Additional accounts opened-----	. 20	. 13	. 15
Boxes of tokens disbursed-----	. 005	. 015	. 02
Boxes of tokens received-----	. 02	. 011	. 01

It will be noted that in each case except one (boxes of tokens disbursed) the recommended fee was less than the current fee.

This study was made freely available to ABA. They had also a tabulation of 159 of the 200 questionnaires which had been distributed during August.¹⁹ Most of these replies were based on estimates of cost, though some were presumably based on actual costs. Of the

¹⁸ Memorandum, Percy Hanson, associate chief accountant, to Louis J. Kroeger, Director, Ration Currency Control Division, "Survey of Operating Costs of Ration Banking," October 6, 1944.

¹⁹ American Bankers Association, "Recapitulation of ABA Ration Banking Questionnaire," August 1944. (A typewritten tabulation.)

usable replies, 42 percent of the banks reported a profit, 58 percent a loss under the schedule then in effect. Each size group except that with more than 200 accounts estimated expense to be in excess of income. It is interesting to note, however, that when the banks were asked what the fee should be for each activity, the most common recommendation in almost every case was the existing fee. OPA was not inclined to place much reliance on these data.

On October 9 the two groups convened, presumably to renegotiate the schedule. OPA opened the meeting by proposing certain reductions in fees, the most important of which were cutting the check fee from \$0.04 to \$0.03, the item fee from \$0.01 to \$0.005, the maintenance fee from \$0.10 to \$0.08, and the reports and regulations fee from \$20 to \$12. ABA countered with some suggestions for raising the schedule rather than lowering it, the specifics of which are unimportant here.

The two groups were so far apart that no progress whatever could be made, and it rapidly developed that ABA's real position was that no change either way should be made in the schedule. It will be recalled that at this time the American Army was rushing across France and a spirit of optimism pervaded the Nation. ABA took the position that the end of rationing appeared imminent and that the time was therefore hardly ripe for any change. OPA was unable to subscribe to this position, insisting that cost of operation was the only pertinent factor, and that bank relations and the war's end were irrelevant. ABA, finally convinced that OPA meant to go ahead with the reduction, asked for a recess of several days, during which they could receive new instructions from the Association officers.

On October 18 the two groups reconvened. The Association had meanwhile decided to proceed with the negotiations though they argued forcefully and logically that the effective date of any changes made should be January 1, 1945, rather than October 1, 1944. This argument was based essentially on the fact that the Sixth War Loan drive was just getting under way. Since the banks played a major part in any loan drive, it would be extremely unfortunate if a reduction in ration banking fees should have the effect of causing many banks to participate less enthusiastically in the drive. This argument was particularly cogent in view of the tendency of bankers, like other people, to view the Government as a unit; the fact that the Treasury Department administered the bond drive while OPA administered ration banking would be of no significance to them. It was agreed at the outset, therefore, that ABA should be released from its commitments to back-date the new schedule, and that no publicity would be released on it until the Sixth War Loan drive had been completed.

The negotiations proceeded in the customary fashion, after these preliminaries had finally been disposed of, with the one difference that

ABA was more prone than usual to bring in the matter of bank relations. They were genuinely alarmed that a substantial reduction in reimbursement would cause wholesale withdrawals from the system, and argued that every doubtful question should be resolved in favor of not reducing the schedule. This consideration of course was not unimportant; it affected OPA to some extent as well and always kept the negotiations from being purely scientific.

As a result of a day's discussion and negotiation, agreement was reached on the following new schedule:²⁰

For each deposit-----	\$0.04
For each item in the deposit-----	.0075
For each check paid-----	.03
Maintenance, per account, per month-----	.10
Reports and regulations, per program carried, per month-----	¹ 3.00

¹ This fee was limited to five banking offices in any branch system in any given city.

This schedule calls for some comment. The original OPA proposal called for a deposit fee of \$0.05 and a maintenance fee of \$0.08. The agreement at \$0.04 and \$0.10 respectively was reached because both sets of figures would cost OPA the same amount of money, but the latter set was more beneficial to the small banks than the former.

The reduction in the fee for checks paid was argued more strenuously than any other point. OPA insisted that this change be made this time and ABA ultimately conceded. The only real concession made by OPA during this negotiation was in the item fee. The original proposal of \$0.005 had been countered with one of \$0.01. With the other changes already agreed to, ABA was finally able to demonstrate that \$0.005 would put more than half of OPA's surveyed banks in a loss position; hence the compromise was agreed to at \$0.0075. Incidentally, the annual cost to OPA of the quarter of a cent was \$800,000.

Before turning to the reports and regulations charge a word may be said about the five items that were completely eliminated. These items were the opening of new accounts and of subsequent accounts, boxes of tokens disbursed and received, and ration checks issued on the bank's own account. Before the discussions opened there had been no thought of eliminating these items. During the course of the discussions, however, someone pointed out that of the \$3,080,944.91 claimed by the banks for the quarter ending September 30, 1944, only \$64,992.77 was accounted for by those five items. In other words half of the ten items of reimbursement were accounting for only 2.1 percent of the money paid out. It was quickly agreed that the schedule was not nearly scientific enough to warrant the retention

²⁰ Amendment 11 to General Ration Order 3, December 19, 1944. 9 F. R. 14674.

of these five items amounting to so little and they were forthwith abandoned. The effect was to simplify greatly the form on which reimbursement was claimed and to facilitate the necessary auditing work which was a part of paying the vouchers.

This leaves only the reports and regulations charge for consideration. One reason that OPA had proposed a reduction here was that a substantial number of banks carried less than six programs or had very little activity in programs they carried. The extreme example was in the South which had a number of banks with one or two shoe accounts only, and these very inactive. Reimbursement to some of these banks might run to \$70 per quarter, of which \$60 would be the reports and regulations charge. While this had never amounted to enough to warrant a change *per se*, OPA was anxious to do something about it while the schedule was being changed.

One other point entered the discussions with significant results. Both sides hoped there would be no need for further reimbursement negotiations after the current ones. Yet it was apparent that not all rationing programs would be terminated at the same time. With an over-all reports and regulations charge, the fee would either have remained far too high as programs ended, or a renegotiation and re-writing of the regulations would have had to take place.

These considerations led inevitably to the conclusion that the reports and regulations charge should be put on a program basis, though this idea, like the elimination of the five items discussed above, was generated only after the conference had begun. Having reached agreement on this point, the question arose as to what the figure should be.

OPA's cost study had indicated an average over-all reports and regulations charge running from \$4.15 for the smallest banks to \$22.09 for those in the \$12 to \$50 million asset size group. The agreement was reached at \$3 per program which was the figure which enabled more than half the banks in the survey to cover direct expenses. This meant that banks carrying all six programs would in the future receive \$18 per month as the reports and regulations charge instead of \$20. Actually, since fuel oil was rationed only in certain areas, almost half the banks carried no fuel oil accounts, so that the fee for them was cut to \$15. There were enough banks carrying less than five programs so that the net effect of the change was to return to the average bank \$15 per month, so that OPA achieved a saving of 25 percent in the item by the change.

One other change was made in the reports and regulations charge. The limitation of five eligible offices in any branch system had not worked fairly. It was equitable enough in the large cities where home office supervision and economies helped the branch office. But

where a branch was located at some distance from the home office, it operated very much like the independent competitor down the street so far as ration banking was concerned. In the administration of the provision, OPA also learned that in a number of States it is characteristic for rather small banks to have 8 or 10 branches through the State. These banks objected that they were truly small banks, the kind which the reports and regulations charge had been designed to assist.

The elimination of the limitation altogether was never seriously considered since such action would have brought an unwarranted windfall to the large metropolitan branch systems where in many (probably most) cases the branch was nothing more than a receiving station for deposits. The solution finally adopted was to limit the fee to no more than five offices within any given city limit. This solution was based on the assumption, of course, that a large system within one city would be able to enjoy economies in ration banking not available to independent banks, but that this would not be true of the more far-flung systems. By and large, this assumption was probably valid. There remained a certain degree of arbitrariness, of course, in using five as the limit, but the solution seemed to be generally satisfactory.

The impact of all these changes on the OPA budget was, of course, substantial. At the quarter ending December 31, 1944, just before the new rates became effective, OPA was reimbursing the banks at an annual rate of \$12,500,000. The reduction from the peak of a year earlier, when the rate had been at \$16,700,000, resulted from the introduction of ration tokens and the establishment of the verification centers with the consequent elimination of bank verification costs. The result of the reimbursement renegotiation was to cut the figure of \$12,500,000 by \$2,867,000 or by 23 percent.

The saving was accounted for as follows. The quarter of a cent cut off the item fee meant \$790,000. The penny off the deposit cost saved \$221,000. There was a saving of \$785,000 in the penny off the check cost, and the change in the reports and regulations charge meant a saving of \$771,000. Finally, \$300,000 was saved as a result of the elimination of the five items from the schedule.

OPA was well satisfied with this renegotiation. A substantial saving had been achieved, the schedule had been greatly simplified, and the fees appeared to be once again in line with actual costs. There remained the problem of announcing the change to the banks, a task that was approached with some trepidation. This would be the first announcement of a reduction in income to the banks, and they were by no means in general agreement that the current schedule was too high. As a matter of fact, most banks had no idea of their ration banking costs and while the attitude of bankers generally toward

the ration banking chore was most commendable, there were those among them who thought it was nothing but more New Deal foolishness.

Ordinarily announcements of this nature were made by memorandum from OPA to the banks. On this occasion, however, it was considered wiser to put the announcement in the form of a letter from the Price Administrator, in which an explanation of the change could be made. This letter was not issued until December 12, 1944, in keeping with the agreement to withhold it until the Sixth War Loan drive had been substantially completed. The Price Administrator's letter cited the decline in the costs of operation as the reason for the reduction in the schedule. "This apparently has been true in part because of improvement in the plan itself and in part because of the greater efficiency which has resulted as bank officers and employees learned more about the system and adopted time and money short cuts."²¹

The announcement brought very little comment from the banks. A few letters of protest were received, of course, in Washington and the field offices, and by the American Bankers Association, but there was evidently a feeling that it was not unusual for a negotiation to result in a downward adjustment. There was not a single withdrawal from the system as a result of the announcement.

²¹ Letter, Chester Bowles, "To All Participating Banks," December 12, 1944.

CHAPTER X

Overdrafts

The greatest difference in operations between ration banking and commercial banking was that in the former the banks were under instruction to debit any ration check for which they had an account, even though the debit might create a negative balance on the particular account. Items were never returned by the paying bank to the bank of deposit. Payees, or holders of endorsed checks, ran no risk that a check might be returned as "n. g.", "n. s. f.", or "n. c. f."

Essentially, the reason for this provision was that OPA felt that it should act to police violations (an overdraft was of course a violation of the rationing regulations) of its own regulations, and not leave such policing to wholesalers or other suppliers. Organized banking had also expressed opposition to the return of ration checks, for reasons that will be discussed presently. Finally, when the ration banking plan was formalized, it was felt that overdrafts of accounts would occur only infrequently. During the trial run in New York State only one overdraft occurred, which seemed to bear out this feeling.

An overdraft could take place for one of two reasons. First, the drawer of the check might have adequate ration currency on hand but might not have made his deposit. Such an overdraft caused no dislocation of the distribution pattern, and could be looked upon as a technical violation. It was annoying, particularly if the person offended repeatedly, but it did not obtain for the drawer of the check any goods which he could not have obtained quite legally.

Second, a person could give a ration check knowing that he did not have enough currency to cover but hoping to be able to cover by selling what he bought before the check cleared or before OPA could apprehend him. This type of violation was serious in that it struck at the fundamental purposes of the entire rationing system by enabling persons without currency to swell the demand for a scarce article to the detriment of legitimate buyers. An interesting illustrative instance may be recalled: on one occasion there was a sudden increase in meat-fats overdrafts in Philadelphia. Examination of the causes showed that a large shipment of Crisco, which had been unavailable there for

weeks, appeared on the market; retailers all attempted to buy, without regard to their ration bank balances.

The banks were under instruction to make periodic reports to the OPA district offices (of which there were 93) listing the accounts that were overdrawn. At that point they had completed their part in the transaction; the follow-up was OPA's job. Later pages in this chapter will describe what OPA did and how successful it was.

In the administration of the ration banking program there is no question but that the overdraft problem caused more trouble and required more time than any other problem, and perhaps more than all others combined. There was also a sharp and abiding difference of opinion as to whether the early decision against having checks returned where there was an insufficient balance to cover a check presented for payment was the proper one. This question was discussed many times within OPA during the life of the program, and opinion to this day is sharply divided among those who were acquainted with the issues.

This chapter will outline the efforts that were first made to learn from all the banks just what the seriousness of the problem was by getting an adequate system of reporting, analyze the problem statistically, discuss the OPA sanctions that were used in an effort to solve it, and examine the arguments pro and con reversal of credit.

Bank Reporting of Overdrafts

The development of the bank reporting of overdrafts indicates clearly an evolution of attitude on the part of OPA from one of wanting to know everything about all overdrafts to one of wanting to know only about those that might be called serious. This change in attitude took place because of the very great volume of overdrafts which nearly overwhelmed the undermanned district offices and made it essential to concentrate only on serious cases.

The original bank instructions had stated that "each overdraft must be reported to the State or district office of the Office of Price Administration as soon as it is determined that it is an overdraft and not a bank error." They also stated that, "In addition, a report of all overdrafts outstanding as of the 15th and last days of each month must be made. * * *" ¹ Finally, the banks were instructed to mail to the district office all statements and cancelled checks on accounts that had been overdrawn at any time during the statement period, instead of sending them to the depositor.

Because of the work involved in rerouting statements, these instructions were modified on May 25, 1943,² to say that only those accounts

¹ Manual of Operating Procedure, p. 9.

² Manual Memorandum No. 5, May 25, 1943.

overdrawn at statement time need be forwarded to OPA; those overdrawn but covered could be released to the depositor. A month later a further modification was introduced when the banks were released from their obligation to report overdrafts as they occurred.³ The semimonthly listing of overdrawn accounts was deemed to be sufficient.

The requirement that statements of overdrawn accounts be sent to OPA at statement period was eliminated on August 28, 1944.⁴ On October 4, 1945,⁵ the midmonth overdraft report was eliminated. This instruction completed the trend and left only the very simple requirement that overdrawn accounts be listed as of the last day of the month and sent to OPA. The trend indicates a desire on the part of OPA to reduce its workload by reducing the number of reports coming to the district offices and by eliminating as cases those accounts that had been overdrawn but were covered by the end of the reporting period. It is not that OPA had no concern for these violations, but that they were less important than the thousands whose accounts were in overdraft status on the last day of each month.

One of the early problems was to get reports from all banks. In the first months of the program this was left to each district office, but they experienced great difficulty in getting reports. One difficulty lay in the fact that, when questioned, many banks claimed to have no overdraft. So long as they had to report only if they had one or more overdrawn accounts, it was awkward if not impossible for a district office to know that all overdrafts were reported. This situation was remedied on May 17, 1944,⁶ when the banks were required to submit a report whether or not they had overdrafts. A penny postcard with the bank's name and the statement "no overdrafts" was deemed sufficient for the approximately 50 percent of the banks each month having none.

The situation was improved further in September 1944 when an overdraft reporting form was distributed to all banks. Prior to that time each bank had used plain paper or its letterhead, which not only made filing difficult but brought less response than a regular form.

Little was known about how extensive the reporting of overdrafts was before the summer of 1944, except that the prevailing opinion in the field was that reporting was poor. In June of 1944 a report was asked from four of OPA's eight regions, and this opinion was confirmed. In region I (New England), for that month, 58 percent of the banks reported overdrafts or "no overdrafts." In region II (the Middle Atlantic States), the figure was 50 percent; in region IV

³ Manual Memorandum No. 7, June 23, 1943.

⁴ Bank Manual Memorandum, August 28, 1944.

⁵ Newsletter No. 30, October 4, 1945.

⁶ Bank Manual Memorandum, May 17, 1944.

(the Southeast) 41 percent, and in region V (the Southwest) 38 percent.

As a result of this spot check, a district office reporting form was instituted, included on which was the percentage of banks reporting overdrafts. The tabulations of this form first became available in September 1944 and showed 74.5 percent of the Nation's banks reporting. Regionally, the figures varied from a low of 54 percent in region V to a high of 93 percent in region IV, the latter figure being the result of some excellent field work among the banks by the Atlanta OPA people.

The very unsatisfactory nature of reporting generally led the National Office to direct its attention energetically to gaining improvement. The banks were reminded frequently of their obligations, and the district offices were instructed to get the reports one way or another, even if it meant writing or telephoning every delinquent bank, which several of them did.

The results were gratifying. The following figures show the percentage of banks reporting by months:

	<i>Percent</i>
September 1944-----	74.5
October-----	82.0
November-----	86.5
December-----	92.7
January 1945-----	95.5
February-----	97.1
March-----	98.0

Subsequently, the figure remained approximately constant until the fall of 1945, when many rationing programs were dropped and the rationing personnel in district offices were severely cut. In December of 1945, under the impact of these forces, it had fallen to 89.4 percent, but was gradually built back up by May to 95, where it generally remained.

Size and Significance of the Problem

The effort that was put into getting adequate reporting was necessary to obtain a true picture of the overdraft situation. There is no way of knowing how many accounts were overdrawn before the fall of 1944 or whether the situation was better or worse than after that time. This analysis, therefore, will necessarily be confined to the months following that period.

A general picture of the overdraft problem can be obtained from an analysis of a given reporting period. January 31, 1945, is selected arbitrarily, though any date would be as satisfactory since the number and size of overdrafts remained fairly stable between the fall of 1944

and the summer of 1945. It is well to remember that overdraft figures are not for a monthly period, but as of a given date, and in that sense cumulative. The loss to the rationing system in any month is not the total amount of the overdrafts reported, but the increase from the preceding period. If the amounts are the same for the last days of any two months, there has been no net loss to the system: some persons have created or increased overdrafts, but others have reduced or eliminated theirs to offset them.

As of January 31, 1945, 7,606 banks reported overdrafts, 6,913 reported no overdrafts, and 688 banks did not report. The reports indicated the following situation to prevail:

Program	Number of accounts overdrawn	Number of units overdrawn	Total number of accounts
Meats—fats.....	12, 663	79, 437, 231	508, 000
Poccessed foods.....	4, 884	32, 404, 115	450, 000
Sugar.....	6, 043	6, 164, 778	225, 000
Shoes.....	997	168, 696	80, 000
Gasoline.....	1, 341	4, 079, 452	120, 000
Fuel oil.....	282	3, 245, 961	42, 000

With respect to the number of overdrafts, the most significant relationship is with the number of accounts. At that time 1.8 percent of the total number of accounts were overdrawn. This figure varied from region to region and from program to program; it was highest in the meat program in OPA’s region VIII (the west coast) where it reached four percent.

On May 31, 1945, 7,777 banks reported overdrafts, 7,372 reported no overdrafts, and 309 did not report. As of that date, with approximately the same total number of accounts, there were 32,999 accounts overdrawn, or 2.3 percent of the total. Following VE-day compliance began to deteriorate rapidly, as will be pointed out subsequently in connection with the sugar experience, but no great variations occurred prior to that date. With from 2 to 2½ percent of the accounts overdrawn, the system was certainly not threatened with disintegration. With respect to the number of accounts overdrawn, it was important to keep the number from becoming too large because of a breakdown in trade morale which might otherwise occur if merchants felt that “practically everybody is overdrawing”. OPA was successful in avoiding this occurrence.

With respect to the number of units overdrawn the figures appear to be tremendous, but this was true of almost all figures connected with the rationing program. On January 31, the table indicates that almost 80 million red points were overdrawn. But on the same date the credit balances in meat-fats accounts throughout the country to-

talled 50 billion points. In other words, the number of points by which red ledgers were overdrawn was sixteen one-hundredths of 1 percent of the number of points on deposits in meat accounts.

Meat was always the most difficult program from a compliance point of view, which is why emphasis is laid on that program. The corresponding figure for processed foods on the same date was 0.04 percent, for sugar 0.10 percent, for shoes 0.10 percent, for gasoline 0.09 percent, and for fuel oil 0.04 percent. These figures seem to demonstrate conclusively that the extent of ration banking overdrafts did not constitute a serious threat to the rationing programs. The number of units lost in each program, was simply not great enough to be called a large factor in the balance sheet of rationing.

The threat that this might develop was always present, however, which meant that a great deal of work had to go into keeping this threat submerged. The methods used to combat overdrafts will be discussed shortly; suffice it to say here that a great deal of time was spent by OPA district office personnel to keep the trade aware of the fact that OPA was intent on keeping the problem in hand. In a few districts this was not done, and the problem went rapidly out of hand as the trade discovered that OPA could not or would not take action against overdrawers. This was the essence of the overdraft problem; it was an ever-present situation which constituted easily the greatest administrative burden of the ration banking program. A solution to it would have released hundreds of sorely needed man-hours per month in almost every district office.

One other point should be made in connection with overdrafts. With the coming of VE-day, and later the end of the war, compliance with the overdraft requirements deteriorated rapidly as the general let-down of OPA employees and the trade took place. This was particularly true of programs which were obviously going to be terminated shortly. In meat, for example, the last record was gathered as of September 30, 1945, when the trade, as well as a substantial portion of OPA field personnel, was certain the program was about to end. On that date the number of meat accounts overdrawn stood at 30,082 (5.6 percent of the total) and the number of points involved reached a total of 328,766,140, which, however, was still only 0.64 percent of the total ledger balance.

The situation in sugar rationing after the end of the war illustrates some of the difficulties that came with a relaxation by the trade as well as by the OPA field offices. In October 1944, 8,000 sugar accounts were overdrawn in the amount of 7,200,000 pounds. By July 31, 1945, the figures were 8,655 and 8,900,000, respectively, the months intervening having seen very little fluctuation. Following that date, however, the situation began to deteriorate rapidly as the postwar

let-down took hold. The number of overdrafts and the number of pounds overdrawn soared in the following manner in the next few months.⁷

Month	Number of accounts overdrawn	Pounds overdrawn	Month	Number of accounts overdrawn	Pounds overdrawn
August 1945	11, 144	10, 532, 588	December 1945.....	17, 867	19, 927, 714
September 1945.....	11, 404	11, 967, 783	January 1946.....	17, 782	17, 779, 827
October 1945.....	13, 944	12, 005, 618	February 1946.....	21, 044	19, 561, 510
November 1945.....	16, 906	18, 776, 942			

By February the situation was truly alarming, with 8 percent of all sugar accounts overdrawn, 9.6 percent in region II (the Middle Atlantic States). One of the important reasons for this development was the reorganization of the rationing division in the field offices with a substantial reduction in personnel in the fall of 1945 as rationing programs were terminated. A rather natural accompaniment of this development was that some work did not get done, and work on overdrafts was one of the first to be sacrificed. The result, as pictured in the table above, indicated the real need for constant attention to this problem.

Early in 1946 the National Office began to place more and more emphasis on field work on overdrafts and the picture began a gradual improvement. By dint of hard work the number of overdrafts was reduced to 14,455 by May 31, 1946, and the number of pounds to 12,001,697. This was a substantial improvement over February although much remained to be done.

OPA’s Method of Combating Overdrafts

The policing of overdrafts was the exclusive job of OPA. The bank’s function was discharged when the overdraft report had been properly filed with the OPA district office. Some banks, however, developed the practice of calling depositors before the report was submitted, asking them to cover where possible, and this practice was encouraged by OPA. For example Newsletter No. 17⁸ contained several excerpts from district office reports stating how helpful certain banks were in calling depositors and thereby keeping their overdraft reports briefer than they would otherwise have been.

But while such activities could be, and were, helpful, the real burden fell on OPA. The first staff memorandum on ration banking⁹ stated that “The enforcement attorney in the State or district office will in-

⁷ The number of accounts remained steady at about 260,000 after August 1945 ; the total ledger balance at about 8 million pounds.
⁸ April 26, 1945.
⁹ Paul M. O’Leary, Deputy Administrator in charge of rationing, to all regional rationing executives, January 22, 1943.

investigate overdraft cases. * * *” The thought had been that each overdraft case would form the subject of an investigation.

There were three courses of action open to the enforcement attorneys. They could bring a criminal case against a violator, though ordinarily this could be successful only where the violation was both substantial and willful, and the sanction was rarely used. They could sue for an injunction against a repetition of the violation, which would make subsequent violations susceptible to contempt of court proceedings. Finally, they could request an OPA Hearing Commissioner for an administrative suspension order, the effect of which was to prohibit the violator from engaging in business while the suspension was in effect. This period might be for a day or for the duration of rationing, depending on the facts as developed during a hearing before the commissioner.

The suspension order was the most frequently used sanction, though in some areas injunctions were sought with some frequency. None of these sanctions, however, was suitable for a great many of the overdraft cases. Where the overdraft was serious or willful or both, they could be and were used, of course, but numerically most overdrafts were neither. Prosecution of a small merchant who overdrew once by 50 or 75 pairs of shoes because he forgot to make a deposit or did not quite understand the system would have been a waste of manpower; even if prosecuted, no Federal judge would convict or enjoin and no hearing commissioner would suspend.

The volume of cases referred by banks to district offices would have made it impossible for enforcement attorneys to prepare them all as cases even if it had been sound policy to do so; for while an overdraft was an easy violation to prove, a certain amount of work was required to prepare the case.

As the program grew older and these facts became apparent, the district offices began to devise procedures that were better suited to the problem. Rationing personnel began “screening” the cases, reporting the repeat or large cases to the enforcement attorney, and sending mimeographed form letters to the balance. This procedure was formalized in April of 1944 when the National Office issued instructions prescribing form letters and their use. Henceforth, a depositor generally received form warning letters on his first two violations; on the third overdraft, or earlier if a serious offense occurred, the case went to the enforcement attorney for action.

Two significant consequences flowed from this procedural change. First, the enforcement attorneys were freed from the mass of trivia which had previously come to them; any case they now received had been warned twice, and warranted immediate attention. Secondly, each violator received a letter warning him to eliminate his overdraft

and not to repeat the violation. Previously, the enforcement attorneys had been unable to handle all cases so that many small violators had not even received attention from OPA. This was most important, since whenever the trade felt that OPA was not interested in violations of its regulations, compliance rapidly deteriorated.

The screening process described above was undoubtedly an improvement over previous procedures, but it was truly effective only where the enforcement attorneys gave it vigorous backing by following through against repeat violators. Unfortunately, this did not occur in every district office; in some there were not the man-hours available, in others the attitude of the hearing commissioners on overdraft cases might discourage the enforcement attorney. The problem remained very much alive.

An analysis of overdraft data shows that the most serious situation was in the food programs, particularly meat and sugar. For example, of the 29,315 accounts overdrawn as of October 31, 1944, 21,157 were in these two programs and 26,779 were in the three food programs. In October of 1944 a special survey of overdrafts in food accounts indicated that 47 percent of these were in institutional user accounts. This fact, plus the nature of institutional user accounts led to the adoption of a new technique for this particular group of depositors, in an attempt to get at the general problem by a special attack on this segment of it.

It will be remembered that the institutional user received an allotment of currency each two months which he was required to make last until the next period. He customarily made one deposit in his ration bank account every two months, and drew the balance down gradually in the ensuing two months. Apparently many institutional users were using the overdraft as a device to tide them over the end of each period until the allotment was received. This fact does not show up in the overdraft statistics, probably because there were too many program changes and other factors at work, but the field offices were nearly unanimous in claiming this to be the case. If this practice were followed consistently, the institutional user frequently found his position becoming progressively worse until his allotment would not cover his debt.

One other peculiarity of the institutional user account merits mention again at this point. Unlike the retailer or wholesaler, he was not required to have a ration bank account, but permitted to have one if he chose provided he was above a certain size. The reasons for this difference were not clear, but the fact of the difference made it legally simple and morally justifiable to treat him as a separate group. The idea grew that his account was permitted him by OPA as a convenience and that if he misused it, it should be taken from him.

After considerable discussion within OPA, which was characterized by a substantial difference of opinion as to the wisdom of the change, the food regulations were amended in February 1945 and a new procedure adopted for handling institutional user overdrafts.¹⁰ Because they were so similar; industrial users were included also.¹¹

The new procedure stated that whenever an institutional or industrial user account was overdrawn, the violator would receive a letter from OPA informing him that his account would be closed (1) if the overdraft was not covered immediately after the beginning of the next allotment period, or (2) if he drew any more checks before it was covered, or (3) if he complied with the two previous conditions but ever overdrew the account again. The debit balance would be transferred to his local rationing board and deducted from his next allotment. Thenceforth he would not be permitted to have a ration account; at allotment period he would receive coupons which he would be required to transfer directly to his supplier as he purchased.

It will be noted that this sanction did not deny the violator the right to engage in business; it merely made it somewhat more inconvenient for him to do so by making him use currency rather than checks. The sanction was, in severity, somewhere between an admonitory letter and an actual suspension. It functioned quite automatically and required no hearing. The only fact that would stay the operation was a demonstration that the bank had made an error so that an overdraft had not in fact existed. No provision was made then or subsequently for permitting the reopening of any account closed under the procedure; indeed no real pressure ever developed for making any such provision, even after the procedure had been operative for some months.

It is not possible to measure with any accuracy what effect this procedure had on the general overdraft problem. In the neighborhood of 5,000 accounts were closed under it, and in addition to the direct effect of eliminating this number of overdrafts, there must have been a considerable effect from the example set. The procedure was not followed in all district offices because it was sometimes not possible to separate the institutional and industrial user accounts from others. In the New York City district offices, for example, between 1,500 and 2,000 overdrafts each two weeks were reported by banks and there was not enough man-power available to check all these names against the registration statements to ascertain which type of account they were. While "Joe's Bar and Grill" was obviously an institutional user, "John Smith" was utterly unidentifiable.

¹⁰ Amendment 92 to General Ration Order 5, February 7, 1945. 10 F. R. 1495.

¹¹ Amendment 6 to Second Revised Ration Order 3, February 7, 1945. 10 F. R. 1537. Amendment 73 to Revised Ration Order 13, February 7, 1945. 10 F. R. 1539. Amendment 39 to Revised Order 16, February 7, 1945. 10 F. R. 1539.

But the procedure was generally most welcome in the district offices of more moderate size and was considered invaluable as a weapon in the overdraft arsenal.

One other device, while not precisely a sanction, was used with good results in a few districts. Known as the "compliance conference," it was developed initially in Hartford, Conn., and was used rather extensively also in Boston, Philadelphia, and Detroit, among other districts. In these districts, one or two days per week were set aside for the scheduling of conferences, usually at 15 or 20 minute intervals, with persons whose accounts were overdrawn and who had not covered after receiving the warning letter. In addition to the violator, both rationing and enforcement representatives of OPA attended the conference.

In the course of the conference, the subject's inventory position was examined with him and a measure of his rationing assets and liabilities taken. The rationing representative, who was an expert in the regulations, was able to see whether there was some provision which the violator did not know about which would help him. As often as not this was the case, since merchants were ignorant of provisions that helped them as well as others. For example, any meat retailer handling heavy mutton was entitled to apply for and receive a point per pound for all such mutton sold by him. Most of them did not know this and at the compliance conference his rights would be carefully explained.

In more than half the cases, the subject would be able to get himself straightened out as a result of information obtained at the conference, and would get his overdraft covered in due course. At the same time, if he had been patently violating, he was informed of the formal action OPA intended to take against him and dismissed.

The compliance conference had as its greatest advantage the fact that it enabled OPA to help those who deserved help, and separated the others out quickly. The conferences were well thought of by the trade and where they were used extensively they were an important factor in gaining the respect and cooperation of the trade. They were used in only a few districts because of the time required by OPA personnel which was already overworked.

The basic weapons of OPA remained the warning form letter and the administrative suspension order. And the basic limiting factor remained the limitation of manpower which plagued the program in almost every district office from the beginning to the end. The pressure in the districts from overdrafts was constant and unrelenting. Every two weeks, later every month, an average of 150 banks per district reported an average of 300 overdrafts per district. After working to get all the reports in on time, letters had to be written, telephone

calls made, interviews held in response to these, and a few cases prepared for presentation to the hearing commissioner or to a court. And before this was quite completed, the next cycle had arrived and more cases were pouring in. Many of the district office employees cracked under the strain from time to time and the fact that OPA was able to keep the problem in bounds is testimony to the devotion of the district office personnel.

The Question of Reversal of Credit

Under the circumstances described above, it was natural that the proposition should have been made many times that the bank instructions should be changed and that any check which would have created an overdraft should be returned forthwith to the bank of deposit and debited back against the depositor as an n. g. check. The depositor then would have to collect the valid currency and OPA's problem would disappear. This position was taken by many bankers and by many in OPA. Many times in bankers' meetings which were addressed by an OPA official, the question would be raised from the floor in the discussion period: "Why don't you let us bounce those checks? We'll solve your overdraft problem for you in a hurry if you do that." Many banks also expressed the feeling that OPA did not act quickly enough after receiving the bank overdraft report, and feared that the slackness of ration depositors might carry over to their money account. It should be added, however, that the official position of the American Bankers Association was always opposed to reversal of credit.

While the wisdom of instituting such a reversal of credit procedure was discussed many times, the fullest discussion with the widest participation took place in the early months of 1944. The problem can be presented best by an analysis of that discussion and the accompanying documents. There were three distinct positions taken at that time, one strongly favoring reversal of credit, and two strongly opposing it but for significantly different reasons.

The first position was taken by the enforcement department in OPA which was groping for a solution to the overdraft problem in order to reduce the field workload. They reached the conclusion that "by far the simplest method of handling the overdraft problem is to amend the present instructions to provide that overdraft checks shall be charged back to the depositors by the banks, as is their practice with monetary checks."¹²

The memorandum claimed a number of advantages in support of the position. Basic to all was the claim that the mere public announcement of the change would vastly reduce the number of bad checks by making buyers afraid to give such checks to suppliers. They would

¹² Memorandum, Thomas Emerson to Bryan Houston, February 22, 1944.

fear the resultant damage to their credit standing, which would be particularly detrimental in a seller's market. The correlative claim was also made, namely, that suppliers would exercise more caution in accepting checks and would therefore do a good deal of the screening for OPA.

Since the point was made so consistently that the procedural change in itself would eliminate most of the problem, it may be well to detour momentarily to consider another change which was analogous and which throws at least some light on this contention. Originally, checks received in clearance for which no account existed in the bank were referred to the OPA district office from which the attempt was made to trace the drawer and to collect valid currency from him, or to prosecute him if he was intentionally using checks on a bank in which he had no account to avoid payment.

This procedure proved too burdensome and early in 1944 it was changed. After the change the OPA merely returned the check to the depositor with notice that his account was being debited and that he should collect from the drawer either a valid check or ration currency. This was a form of reversal of credit, operated by OPA rather than by the banks. The assumption was that it was not too much to ask the supplier to be sure that his purchaser at least had an account at the bank on which he was drawing, or to collect again from him if he made an error. And of course it was assumed that when the procedure had been in effect for a period of time, the practice would stop. The interesting thing was that there were no fewer cases after the change than before; as a matter of fact most district offices experienced a gradual increase.

If this experience was at all analogous, as it seems to have been, it casts considerable doubt on the contention that reversal of credit would automatically eliminate most of the problem.

The second position on the reversal of credit problem was that there were so many technical problems involved as to make the idea infeasible. This position was put forward most completely in a letter to OPA from the American Bankers Association dated February 17, 1944.¹³ This letter emphasized the operating problems that banks would experience if the procedure were instituted.

No great problem was anticipated where a check was presented against a balance which was insufficient, though the point was made that errors would necessarily occur from time to time, with consequences to be described below. But the real difficulty would occur when uncollected funds existed in the account. To be more specific, if a ration check for 1,000 points was deposited by Mr. X to his credit,

¹³ Letter, Wilbur Lawson to Joseph A. Kershaw, February 17, 1944.

the credit would have to remain fictitious until time had elapsed for the check to be returned by the drawee bank if it should not be good. Meanwhile, checks drawn by Mr. X could not be debited against the uncollected 1,000 point credit.

Since it was customary, and probably necessary in view of the volume of business banks were doing during the war, for ration checks to be cleared and posted less promptly than dollar checks, the regular time limits by geographical zones on the collection of funds could not be made applicable. It would be necessary, therefore, to establish special clearing rules, which would be at best extremely complicated.

In addition to the expense of watching accounts so closely and the trouble from inevitable mistakes, the banks expressed an unwillingness to undertake some of the necessary judgments. For example, they asked, what should they do when an account had a balance of 1,000 points and three checks for 500 points each were received simultaneously in clearance? Which one should they return? And if they called the depositor, a trusted customer of the bank, who promised to make the deposit to cover "first thing in the morning," should they decide whether he meant it and assume the risk? They would do so on a dollar account, but in rationing it was not their own assets they were risking. Those questions seriously troubled the bankers; they did not want to have to face them and they did not want to risk the strain in their customer-relations that might develop. Yet they felt that hard and fast rules for each possible contingency could not be developed or made practicable.

The Association added another argument. They felt that reversal of credit would create an insistent demand for a much more widespread use of certified checks, since some suppliers would be unwilling to accept regular ration checks from some buyers. Since the certified check took teller window time, they were anxious to avoid its extension. Closely related thereto, they expressed considerable conviction that the number of calls coming into banks asking for information about balances in accounts would increase substantially, a development they were also anxious to avoid.

The final point made in the Association letter was that returned items were expensive to handle, an item that should be of interest to OPA. They pointed out that the usual charges for returning dollar checks varied from fifty cents to \$2 each in various banks.

During this period the president of one of the large Eastern banks was attached to the OPA as a part-time consultant on ration banking. He subscribed to the argument presented above and added the following: "I would stress one more point which, to my mind, makes such a procedure impossible; namely, that I believe counsel for the great majority of banks would rule against the inauguration of a return

item system. In money banking, a check is either good, drawn against uncollected funds, or "insufficient funds". In ration banking the "floats" of uncollected deposits and the hazards of forged paper are such that the bank could not determine if the check was good in a large proportion of the cases. Return of doubtful items might well subject the bank to endless suits for damage of credit. . . . I believe a program of complete reversal of credit would cause wholesale withdrawals from ration banking by participating banks, and might well leave many communities without any ration banking facilities. It would be a most impractical and dangerous experiment. I find complete unanimity on this score among bankers."¹⁴

To these arguments some of the OPA personnel added a few more. In particular the matter of the liability of endorsers was raised. "The last endorser, or the depositor, may retain possession of the check returned to him because of 'insufficient funds' for an unduly long period before proceeding against the previous endorser. This previous endorser may hold the check for a time before proceeding against the prior endorser, etc. This raises the question of the liability of endorsers who are not notified promptly of the dishonor of a ration check."¹⁵

There was also a question raised as to the problems that reversal of credit would raise for the Federal Reserve banks. Frequently checks were forwarded to the Reserve banks for clearance by the bank of deposit without the endorsement of the bank of deposit. With the "sort and send" type of operations followed by the Reserve banks this did not matter particularly, since the drawee bank (the destination of the check) was always plainly marked. But if checks were to be returned, the endorsement was crucial, since only by it could the bank of deposit be identified. Without the daily settlement of balances that characterizes the clearance of dollar checks, it was questionable whether mechanics could be established to assure the appearance of this endorsement on every check.

The third position with respect to reversal of credit, to which the author subscribed, held that it would be an unwise procedure to institute; but because of its effect on the trade and on the rationing system rather than because of technical banking difficulties. Admittedly the technical difficulties cited were for the most part valid, but they were difficulties only, not impossibilities. By the same token it could have been argued, and probably proved, in the summer of 1942, that ration banking itself would not have proved possible to install. Without question, reversal of credit would have required a lot of planning and

¹⁴ William Fulton Kurtz, "Report on Ration Banking," May 26, 1944. (A report to the Office of Price Administration.)

¹⁵ Memorandum, Martin Walls to Louis J. Kroeger, "Critique of 'Reversal of Credit' System," February 16, 1944.

thought, would have changed rather fundamentally certain parts of the ration banking program, and would have changed the reimbursement schedule, probably upward. But the change could have been made had it been desirable; furthermore, it would have been made without "wholesale withdrawals of participating banks", for while it was true that the American Bankers Association strongly opposed the move, in the opinion of the author there would have been strong support for it from the great majority of the banks, who were tiring of submitting reports and seeing little action.

Nevertheless, reversal of credit did not seem wise to this group. Its reasons are found in the nature of the rationing flow-back. Under the rationing regulations any merchant who had a ration bank account was required to use it for all his rationing transactions. He was not free to give "cash" instead of a check to a supplier who didn't know whether his credit was good, or who was unwilling to assume a risk. This provision had been written into the regulations for the specific purpose of assuring OPA that a record of all rationing transactions would appear in one place for all merchants who had accounts. Time had proven it a useful device.

The reversal of credit proposal would have shifted the burden of responsibility for the validity of ration checks from the drawer to the payee. Without it, OPA proceeded against the drawer whenever the check turned out to be invalid. With it, the payee would have to assume this function; in many cases he would be successful, in some he would not. This shift could not be made without giving suppliers some way to hedge against the risk. Otherwise suppliers would simply refuse to sell to many merchants (the market was a seller's market, it will be remembered) and the distribution system would be tied in knots.

There were two methods by which this could be accomplished. First, the supplier could be permitted to require that checks be certified by the bank before he would accept them, thus being assured that the check was valid. This alternative was ruled out as being simply impossible, not only because of the expense involved, which would have been considerable, but because the banks could not take on an extensive window operation under wartime business conditions. They had neither the window or lobby space, or the personnel, and were unable to get either.

The second method, which was given a good deal of thought, was to abandon the requirement that all rationing transactions be by check and to permit the use of stamps and coupons as currency where needed. For retailers this would have been feasible, since in their day-to-day business they received stamps and could hold some of them out of the bank for paying certain suppliers.

But institutional and industrial users had no ration currency if they had bank accounts. Instead, they received a single certificate or ration check from the rationing board every two or three months. This was deposited and drawn against as needed. Some method would have had to be established to permit them to exchange checks for currency when needed, and the only available place would have been at the local boards.

To establish an exchange mechanism at local boards would not have been impossible, but it would have run counter to all that experience taught was wise. Ration banking had originally been established largely because the boards were unable to perform the exchange function properly. It would appear to be highly doubtful wisdom to ask them once more to undertake this function, to establish the complex accountability procedures that were necessary to protect the currency, and to run the risks of currency thefts which occurred all too frequently.

The decision had to be made with all these factors in mind. To go on without reversal of credit meant continuing to spend a good deal of time on overdrafts in the field, and some loss of ration credit through this loophole. To change, however, meant a fundamental change in the ration banking system over the opposition of organized banking, creating a number of new operating problems the magnitude of which could not be forecast, creating a problem of adjustment at district offices where checks were incorrectly paid by drawee banks, and making it necessary to establish at local boards an exchange mechanism of some sort.

It was not certain of course that the change would solve the problem. Overdrafts which showed up before in retailer accounts might merely be thrown back into wholesale accounts where they would become invisible, swallowed up by sizeable credit balances. Whether wholesalers would proceed against their own customers for ration debts is not known.

In view of all the uncertainties, and (very important) in view of the fact developed previously that the overdrafts did not constitute a serious program threat, the decision was made and adhered to for the life of the program not to adopt a reversal of credit procedure.

CHAPTER XI

Ration Bank Accounts for Government Agencies

Two kinds of ration bank accounts were opened and used by Government agencies as a mechanical aid in the rationing programs, though not because these agencies were limited in their legal authority to procure the rationed commodities. The first were the accounts used by the so-called "exempt agencies," those Government agencies like the War and Navy Departments who were expressly exempt in the rationing regulations from the restrictions. The second were the various OPA offices, which used accounts for specialized purposes not related to the acquisition of rationed commodities. These specialized uses to which the ration banking program was put warrant a brief description.

The Exempt Agency

When the supply agency delegated to OPA the authority to ration a commodity or group of commodities, it was customary to name certain Government departments whose acquisition of the commodity OPA could not limit. These came to be known as "exempt agencies." Most of their supplies of the rationed commodity were obtained outside the rationing system but it was also necessary for them to buy from retailers or wholesalers.

To illustrate, the Department of Agriculture was the supply agency for sugar. At the beginning of each quarter, the Department made allocation of a certain number of tons of sugar to the army, a different sum to the navy, another to lend-lease, and so forth. The residual amount was allocated to the civilian population; it was this amount that OPA attempted to ration among consumers, home canners, institutional users, and industrial users. The tonnage going to the army, and other exempt agencies, was taken from the refiner for the most part before it ever entered the rationing system and was viewed as nonexistent by OPA for rationing purposes. The civilian allocation was therefore far less than the total supply.

Most of the army's sugar, to continue with the example, was delivered in bulk by refiners for use in major military installations or for ship-

ment to troops overseas. But a rationing problem arose because it was not feasible to supply all the army's sugar from this bulk allocation. In small army posts, it was far simpler and more economical for the sugar to be purchased locally as needed. This was in fact done with every rationed commodity by at least some of the exempt agencies, a procedure which brought the exempt agency into the market which held civilian supplies only.

This problem was handled in the following fashion. The allocation granted by the supply agency to the exempt agency was given in effect in two parts. The bulk allocation from the primary producer level was made somewhat smaller than the total need, and it was assumed that the balance would be taken from civilian supply channels. It may be noted once again that OPA had no authority to place any limit even on the amount taken from civilian supplies. If an exempt agency had a mind to, it could buy to excess in the civilian market and distort completely the distribution pattern. For this, or for using however much more than it agreed to at allocation period, it was answerable only to the supply agency, not to OPA.

When an exempt agency purchased directly from a retailer or wholesaler, provision had to be made for the seller to receive some sort of ration currency so that he would be in a position to replace his depleted inventory. (The primary distributor covered himself by reporting exempt agency sales in his regular OPA report.)

This problem was handled before ration banking was installed by making available to every purchasing unit in every exempt agency a special type of certificate which merely had to be filled out for the proper number of units and handed to the seller at the time of the sale. The certificate then entered the currency stream and followed the same course as any other certificate. An attempt was made, when the certificates reached the local boards, to sort them and return them to the point of issue where the exempt agency presumably checked them to see that they had been properly issued for a proper purpose. This, however, was a laborious task for both OPA and the exempt agency and was never considered satisfactory by either.

Shortly after the ration banking program was launched, exempt agencies were brought into the program in order to facilitate this procedure.¹ Each purchasing unit of each exempt agency opened a ration bank account in the regular fashion for each program in which it was active (except shoes). The ration check then replaced the certificate. In two ways this was a distinct improvement. First it eliminated a substantial workload in OPA's local boards which no longer had to sort and return thousands of certificates. Second, the check was a much simpler instrument to handle, and the task of the exempt agency

¹ General Ration Order 3B, March 1, 1943. 8 F. R. 2665.

in auditing its own issuances and controlling its own personnel was simplified.

Except in the food programs the use of certificates by exempt agencies was never entirely eliminated. They were still used in gasoline, for example, to issue rations to personnel on official transfers, and for use in army vehicles on maneuvers; in fuel oil also they were used by drivers of Diesel-using vehicles. For these small purchases at roadside gasoline stations the ration check was hardly suitable, since having authorized signatures on file at a bank would have been impractical. But almost all gasoline and fuel oil was purchased by ration checks.

In shoes no accounts were opened by exempt agencies. Here the typical purchase by the services which was not in bulk from manufacturers was for one pair of shoes by an officer. Certificates continued to be used for this purpose.

Exempt agency accounts differed radically from others. In order to prevent the balance in the account from limiting the issuance of checks, they were operated on an unlimited overdraft basis. In most of them, few if any deposits were ever made, and they were consistently and legally overdrawn. The banks were instructed to pay no attention to the overdraft status of these particular accounts, for that would be their normal condition. In order to keep the negative balances from climbing to unmanageable heights, the banks were instructed to bring the balance to zero on the first day of each month and to begin a new ledger sheet with a zero balance.²

The banks were also instructed to keep their exempt agency accounts in a separate ledger from all others. Had this not been done the ledger balance figure reported by banks would have been badly distorted. Instead, the banks reported separately the exempt agency negative balance as of the end of each month, a figure which was extremely useful as a check on the armed services at allocation time. If the services used more of a commodity from civilian channels than they estimated in advance, it meant that the civilian allocation was in fact smaller than OPA had been assured.

From the point of view of the exempt agencies, these unlimited overdraft accounts were most satisfactory. OPA was also generally satisfied with having the exempt agencies in ration banking, but the unlimited overdraft account never functioned as well as it might. The larger banks were able to handle such accounts without difficulty, but the idea was so alien to many smaller bankers that they were never quite sure about the operation. Many army posts were located in the rural South, where the nearest bank was very small;

² In many of the accounts the balances would have exceeded the capacity of bookkeeping machines except for this provision.

the overworked banker frequently could not get accustomed to an unlimited overdraft account.

As a result, trouble of one sort or another always seemed to be arising. A bank would forget to reduce the balance to zero, another would report a "serious overdraft" to OPA which would turn out to be an exempt agency account, still another would open an unlimited account for an officer's club, which should have been treated as a regular civilian institutional user, and so on. No one of these problems was particularly serious, but in toto they were annoying. On several occasions OPA suggested to the exempt agencies that the accounts be changed in some way so that they would have positive balances, but without success.

A brief description may be in order for what was called a "special" exempt agency account for the navy. Because thousands of naval vessels touched United States shores now and then, many of them very infrequently and many in secret, it was out of the question for the navy to set up separate exempt agency accounts for each vessel and record authorized signatures with banks. To solve this problem one account for each rationed commodity (except shoes) was established in a Washington bank. Checks were printed for these accounts without any commodity name, and the accounts had no authorized signatures on file.

These checks were then distributed by the navy to purchasing officers on hundreds of ships. When the ships touched land (these were mostly small ships, of course) the purchasing officer used his checks, filling in the proper name for the rationing program as well as the other necessary information. When the checks cleared, the drawee bank in Washington paid them automatically, acting merely as a record-keeper. The navy undertook to verify the signatures for authenticity.

OPA Ration Bank Accounts

It will be recalled that one of the serious defects of the preration banking system when currency was exchanged at local rationing boards for certificates had been the impossibility of returning the certificates to their point of issue for audit. This problem had been solved when ration banking supplanted this exchange mechanism. But the boards continued to issue certificates periodically to institutional and industrial users and occasionally to retailers and wholesalers. The same problem persisted with these certificates.

Even before ration banking was installed there was considerable discussion about having boards and other OPA offices open accounts and use ration checks for issuance purposes instead of certificates and certain coupons. The step was not taken at that time for reasons

not relevant to this discussion, but the matter was reconsidered at frequent intervals after that.

The proposed OPA account system had a number of advantages beyond permitting the audit of issued currency. It would eliminate a number of certificate forms, thus simplifying the currency system. This in turn would eliminate the work and difficulty of distributing these forms, which was always a real task. Each certificate contained a serial number and had to be accounted for at each distribution point. Because they were subject to the constant hazard of theft, boards were not permitted to have more than a 15-day supply on hand at any one time, which meant that, in spite of every effort, some boards were always exhausting their supply. Finally, the use of bank accounts would permit the work of the issuance clerks to be checked more closely and would facilitate the audit of the use of the ration checks by the trade.

These advantages were readily agreed to by all concerned; the procedure was not installed, however, until the fall of 1944 because it was estimated that it would cost in excess of \$1,000,000 annually more than the then current system.³ This increased cost was accounted for primarily by the fact that each check issued would incur a charge of four cents (the debiting fee) whereas there was no such charge attached to certificates. The costs of opening and maintaining accounts for 5,600 local boards and 93 districts would also be additional, but the check charge was by far the greatest.

The issue came to a head during the summer of 1944 when large-scale counterfeiting developed in the gasoline inventory and bulk coupons. These coupons, issued in denominations of 1 and 100 gallons, were issued to bulk consumers (those having their own gasoline storage tanks) and to retailers and intermediate distributors for inventory adjustments. At one point during the summer these coupons in the 100-gallon denomination were selling for 3 for \$50 on the black market, and a way had to be found to eliminate them. Accordingly, local boards began opening gasoline accounts on August 15, 1944, and after September 1 they ceased issuing bulk and inventory coupons; the ration check replaced these coupons and one form of gasoline certificate that had been issued to large bulk consumers with bank accounts.⁴

Ration accounts in gasoline worked well, and were received extremely well in the field. About this time also the reimbursement renegotiation was successfully concluded with substantial savings. As a result, all other programs were added during November.⁵

³ Memorandum, Joseph A. Kershaw to Burke Fry, October 4, 1943.

⁴ Supplement 17, Bank Operation Memorandum, August 10, 1944.

⁵ Supplement 24, Bank Operation Memorandum, November 14, 1944.

Since the only issuance of currency in the shoe program at local boards was of the special shoe stamps worth one pair each, there was no need for bank accounts for boards in shoes. With this exception each local board and each district office had an account for each program as did the National Office. Generally speaking these accounts were operated by the banks in the same fashion as other ration accounts. In most cases activity on the debit side was heavy since most offices issued a good many checks.

Ordinarily also, activity on the credit side of the ledger was light since OPA offices had relatively few deposits. But most of them did receive checks now and then as repayment of debt by the trade or other inventory adjustment. Prior to the opening of OPA accounts these checks had been handled, first by direct return to the drawee bank by mail, and later by being sent by boards to district offices, listed there on a transmittal letter and forwarded to the nearest Federal Reserve bank from which they were handled like any other transit item. After the board and district office accounts were opened these checks were merely deposited in the appropriate account. This was a much simpler method of clearing these checks promptly.

In two respects the OPA accounts differed significantly from others. They were installed in the fall of 1944 when the reimbursement for each check paid was four cents. Because OPA accounts would be "good" accounts for the banks—that is, heavy debit activity and light deposit activity—and because the installation of the system would eliminate most of the troublesome certificates, the bankers through their Association had strongly favored the idea. When OPA proposed, therefore, that checks on OPA accounts should be reimbursed at a rate less than four cents, agreement was reached without difficulty on a rate of three cents and announced to the banks.⁶

The second significant difference between these accounts and others lay in the manner in which the credit balance was maintained. The original intention had been to establish unlimited overdraft accounts similar to the exempt agency accounts. It has already been pointed out, however, that these accounts created continual difficulties in some of the smaller banks and to avoid an extension of these, the American Bankers Association made an interesting suggestion which was adopted and which enabled all these accounts to be carried on a credit basis. The Association was anxious to avoid the extension of the unlimited overdraft system, which was not popular with the banks.

The Ration Credit Draft

Since the deposit of checks received from the trade would ordinarily be insufficient to cover the withdrawals of an issuing office, a

⁶ Supplement 17, Bank Operation Memorandum, August 10, 1944.

new instrument, known as the "ration credit draft," was devised to enable the office to establish its credit. As its name implied, the ration credit draft was an instrument deposited in one bank for credit and cleared for debit to another bank. To be more specific, a local board filled out a credit draft and deposited it in its account for credit. The draft was drawn on the district office's bank and cleared to it by the local board's bank. At the district office bank the debit was entered against the district office account, the draft canceled and returned to the district office along with the statement and canceled checks. In turn, the district office deposited credit drafts in its own account drawn on the National Office account.

The payee line of the credit draft was imprinted with the legend "ourselves only" so that it was not-negotiable. It carried also the printed name of the drawee bank and of the account. The drafts were printed by the drawee bank and distributed for use by the district or National Office. Thus, the district office bank printed an average of 50 pads of drafts, which the district office distributed to its local boards for their use. The National Office bank printed drafts which the National Office distributed to the 93 district offices.

The drafts were check size and were handled in clearance like any check. The name of the rationing program was not imprinted, but was left blank to be filled in at the time of deposit so that one pad of drafts could be used for all programs. Incidentally, credit in the National Office account was established by a "letter of credit" instructing the bank to enter a fixed credit whenever the balance fell below a designated point.

The essential function of the credit draft, of course, was to enable the accounts to be carried on a credit basis and thus eliminate the need for unlimited overdraft accounts. One byproduct, however, which fortunately never had to be used, is significant. For the first time OPA was in a position where it could exercise ironclad control over issuance in the field.

Stamps and coupons of fixed value were distributed to boards and district offices by OPA's eight distribution centers and could be carefully controlled. But as long as the boards had certificates whose amounts were filled in at the time of issuance, the total issuance of the board was not under tight control. After the accounts were opened, however, it would have been a simple matter to bring all the credit drafts from the boards to the district office, and to issue one each month for the amount of the quota allowed that board less the coupons sent it. The fact that this device was available was comforting during some of the near-crises although it never had to be used.

Operation of Accounts by OPA

Generally the operation of these accounts created no particular problems of importance. Three minor problems required some attention at first. First, the OPA offices were instructed to ignore the stubs on the checks (the banks were given the option of supplying checks without stubs on these accounts) and were given a sort of check register to use. This was essential whenever the issuance was in any volume. But many boards insisted on using check stubs in addition to the register, feeling that the process would be incomplete if the stubs were left blank. This of course slowed the issuance process dangerously and impaired other board work. It was several months before this could be stopped in boards and even in some district offices.⁷

Second, the district offices had difficulty at first in keeping their credit balances properly. They could keep a satisfactory record of their own check issuances, but each had an average of 50 boards writing drafts which became debits in the district office accounts. The boards were instructed to deposit monthly only what they would need for the coming month and both they and their district office had good issuance records on which to estimate this need. But inevitably some boards deposited too much now and then which would throw the district office account temporarily into overdraft. This was not serious, however, and as time went on the situation settled down.

Thirdly, the problem of reconciling OPA accounts presented some unanticipated difficulties. Chief among these was the tendency of some checks to remain outstanding for long periods of time. This was particularly true in the gasoline program. Where a dealer had a 5,000 gallon storage tank but rarely received deliveries in excess of 1,000 gallons, he might never have occasion to use an inventory check for several thousand gallons. This check, therefore, would remain outstanding for the life of the program.

As time went by the number of outstanding checks became a higher and higher percentage of the number of checks issued in any given month. While it never became impossible to reconcile an account, it did become more time consuming where issuance was in heavy volume. This led to a change in instructions on June 16, 1945, and OPA offices stopped reconciling their accounts.⁸ Actually, of course, reconciliation was not necessary to the proper control of these accounts, whose balances were really quite fictitious. The important thing was that the cancelled checks be compared to the issuance record to make

⁷ One district office representative visited his boards and destroyed all the check stubs to insure against their being used.

⁸ War Price and Rationing Board Loose Leaf Service, No. 214. June 16, 1945.

sure that the checks had really been issued by that office and that they had not been raised or altered. These verifications continued to be made.

As has been pointed out previously, these difficulties were not fundamental in any sense. The system was a very definite improvement in the currency and issuance method and permitted a substantially greater measure of control. The field was pleased with the change, and it worked exceedingly well.

CHAPTER XII

The Legal Arrangements

The legal authority to ration stemmed from the Second War Powers Act of 1942¹ which conferred upon the President the right to allocate scarce materials whenever necessary in the interests of the national safety and welfare during the emergency. The President, by Executive order,² transferred this authority to the Office of Production Management (later the War Production Board). The War Production Board in turn delegated general authority to ration to the Office of Price Administration by Directive No. 1.³ These orders were amended and supplemented from time to time and specific directives with respect to each commodity rationed were issued at the appropriate time either by WPB or by another supply agency in those cases where WPB redelegated this authority. At the time a specific direction to ration was issued to OPA by any of the supply agencies, the allocation authority was included in the directive. Rationing regulations were then drawn and issued by OPA, deriving the force of law from the Second War Powers Act.

The General Nature of Rationing Regulations

For the most part there was one rationing regulation for each commodity or group of commodities rationed. Thus, Ration Order 5 contained the requirements for those dealing in or using gasoline, and Ration Order 16 was the regulation for all the commodities included in the meat, fats, fish and oils program.

In addition to the regulations for each program, there were certain other regulations, called general ration orders, which were broader than any single program. For example, General Ration Order 5 contained the requirements for institutional users of all food commodities that were rationed at any given time, cutting across several programs. Again, General Ration Order 9 had to do with rations issued to servicemen on furlough, their rights and obligations in several commodity programs being covered in one regulation.

¹ Sec. 301, Pub. Law 507, 77th Cong., 2d sess., approved March 27, 1942, 56 Stat. 176.

² Executive Order 8875, 6 F. R. 4483, August 28, 1941.

³ 7 F. R. 562, January 24, 1942.

The Nature of the Ration Banking Regulations

In order to give the ration banking program the force of law, it was necessary to draft regulations dealing with the banks and with the depositors. Since such different problems were presented, it was decided at an early date that the regulation governing the banks should be separate from that governing the depositors. The bank regulation became "General Ration Order 3—Ration Banking—Banks,"⁴ a general order because it affected a number of rationing programs.

The question of how to formulate the regulation governing depositors was more difficult. During the experiment in New York State there was no separate regulation for depositors; rather the sugar regulation (Ration Order 3) and the gasoline regulation (Ration Order 5C) had been amended to include the obligations of all merchants in each of those programs. The question was whether (1) to follow that procedure for all programs when ration banking was extended throughout the Nation, (2) to take all ration banking references out of all commodity regulations and incorporate all these provisions in a general ration order, or (3) to incorporate provisions common to all depositors in a general ration order and include in the commodity regulations those matters pertaining exclusively to the particular trade.

The third alternative was selected as the most satisfactory, on the ground that a shoe retailer, for example, should be able to learn as much as possible from the shoe regulation (Ration Order 17) about his rationing obligations and that the general ration order to which he was referred by the shoe regulation would be shorter and simpler if it did not have sections on each commodity. This method was economical of space and words, and left jurisdiction of part of the requirements on ration banking with those administering the commodity regulations. This multiple jurisdiction created some problems of administration, but such problems were inherent in an operation such as ration banking which crossed several commodity program lines.

The existing commodity regulations were amended, therefore, and later regulations were written, to include provisions having to do with which merchants were required or permitted to have ration bank accounts, under what circumstances checks had to be certified, how chain stores operated balances for individual outlets and for the system as a whole, and other provisions that might differ from program to program. "General Ration Order 3A—Ration Banking—Depositors"⁵ contained provisions common to all programs, such as how to open and close an account, how to write and issue a check and what records were to be kept.

⁴ January 27, 1943. 8 F. R. 865.

⁵ January 27, 1943. 8 F. R. 1130.

One other regulation, though much less important than the preceding two, deserves mention. It will be recalled that certain government agencies operated what were called unlimited overdraft accounts. To formalize the procedure under which these agencies operated, "General Ration Order 3B—Ration Banking—Exempt Agencies"⁶ was issued. These regulations will be discussed in turn.

General Ration Order 3

In many ways General Ration Order 3 was unique among rationing regulations. It was a completely voluntary regulation, having no effect on any bank unless the bank chose to enter the system and assume the obligations and privileges. Once having elected to do so, the bank was always free to withdraw, though in most situations only after 30 days' notice. The regulation contained no penalty provision, and the privileges were frankly designed to balance the obligations. In consequence, no litigation involving the validity or interpretation of the regulation arose during the course of its administration.

The regulation was brief and rather simple. It had only four major provisions, and of these the first two contained the essence of the regulation. The first⁷ provided that a bank incurred the obligations and received the privileges of the regulation upon the opening of its first account. Reimbursement was then detailed, followed by the right of a bank to withdraw voluntarily and OPA's right to require a bank to withdraw on 30 days' notice. Voluntary withdrawal was permitted on 30 days' notice unless OPA changed certain designated provisions of the regulation without 30 days' notice, in which case immediate withdrawal was permitted. Included in these designated provisions were those dealing with reimbursement, with reversal of credit, and several others affecting the liability of the banks.

The second important part of the regulation⁸ concerned the operation of ration bank accounts by the banks. It listed fourteen positive duties which in effect told the banks what they were to do. These were followed by a most important paragraph, as follows:

All of the foregoing shall be done in accordance with the provisions of the Manual of Operating Procedure and such other written instructions as may from time to time be issued by the Office of Price Administration.⁹

The significance of the foregoing paragraph lay in the flexibility it afforded the administration of the program. Procedurally, it is difficult and time consuming to amend a regulation. An amendment must be studied carefully by many people, it must be inserted in the Federal Register. Instructions, on the other hand, were much easier to issue in the Federal Register and it is ordinarily not effective for about 10 days after

⁶ March 1, 1943. 8 F. R. 2665.

⁷ Section 1305.411.

⁸ Section 1305.412.

⁹ Section 1305.412 (b).

simpler to issue. They were less formal, could be written more quickly and mailed directly to banks, to be effective on receipt.

The fourteen listed functions were general rather than specific. That on the acceptance of deposits, for example, read as follows:

Participating banks shall . . . accept deposits of all evidences presented in proper form for deposit. Count, verify, and maintain proper control over all evidences deposited. Credit the proper accounts with the amounts of all apparently valid evidences deposited.¹⁰

It was possible to make changes in bank deposit acceptance by instruction rather than amendment by merely defining in the instruction the terms used in the above provision. Amendment was required only when major changes, such as the introduction of deposit envelopes, were made. The speed of action that was gained from the flexibility of the regulation was invaluable, particularly during the early part of the program when rapid changes were being made.

The third substantive section was inserted to make it unnecessary for banks to have new endorsement stamps made. Most bank endorsement stamps guarantee all prior endorsements on the check. This could not be done in ration banking because the bank was in no position to make a guarantee when it had no assets with which to back up a guarantee. Section 1305.413, therefore, specifically relieved banks of responsibility for prior endorsements even though their stamp contained the customary legend.

Finally, section 1305.414 required banks to keep all ration banking records confidential except that they were to be made available to any bank examiner specified by OPA, and to the Department of Justice and OPA.

General Ration Order 3 was amended very infrequently in comparison with other rationing regulations. From its effective date on January 27, 1943, to the end of 1945 it was changed fourteen times. Of these fourteen amendments, five were made to incorporate changes in the reimbursement schedule.¹¹ Four were technical changes to adapt the regulation to the token program, one was necessary when envelopes came into use, and another when verification centers were established. Amendment 14 changed some terms when the rationing department was abolished, and sugar was the only commodity still rationed.

Of the remaining two, Amendment 2 provided a method for closing the accounts of large numbers of food retailers when the eligibility was changed in 1943. Amendment 3 made ration checks transferrable by nondepositors, permitted banks to retain small retail accounts if

¹⁰ Section 1305.412 (a) (2).

¹¹ Amendments 4, 6, 9, 10, and 11.

they wished to do so, clarified the deposit verification requirements in view of the envelope situation, and specifically made eligible for participation cooperative credit associations in Nebraska which had been outside the original eligibility definition but which OPA decided were desirable participants.

General Ration Order 3A

General Ration Order 3A, like General Ration Order 3, was brief and simple. It defined the obligations of the depositor with respect to the banks and the system. It told how accounts were opened, how deposits were made, how checks were used and how accounts were closed or transferred. It applied equally to all depositors regardless of what rationing program was involved.

The regulation was amended six times during its life, and revised once,¹² though no amendment was fundamental. For example, amendment 1 changed the requirement that certain information must be kept on check stubs, so that persons using check registers (without stubs, of course) would be in compliance.

The most significant of the six changes was amendment 1¹³ to the revised regulation which removed the limitations on the use of altered checks to the extent of permitting the use of a check when the commodity name only was changed. This was brought about by the abrupt termination of coffee rationing, which found many banks with substantial inventories of coffee ration checks. The change, made to permit the use of these checks, was of doubtful wisdom, since of course it was never possible to know that the change was made before and not after issuance and transfer of the check. Instances of illegitimate alteration arose frequently enough to be annoying, though not serious.

General Ration Order 3B

General Ration Order 3B was peculiar in that it contained provisions governing exempt agencies over which OPA had no rationing authority. Though in the form of a regulation, General Ration Order 3B therefore had only one compulsory feature, and was more in the nature of a published agreement than an administrative law. It will be remembered that exempt agencies (for example, the army and navy) were those agencies whose ability to purchase rationed commodities OPA could not limit. The language of the regulation reflects this lack of authority.

The regulation stated that any exempt agency "may" (not must) open an account "at any convenient bank" (not necessarily where it

¹² August 25, 1943. 8 F. R. 11669.

¹³ October 11, 1943. 8 F. R. 13738.

had a dollar account). Exempt agencies, in the conduct of their accounts, differed in three respects from others. First, they were permitted to overdraw freely—"no balance is required between debits and credits." Secondly, they were permitted to open separate accounts for their debits and credits where desirable. This was to facilitate their own control operations and was permitted at their request. Thirdly, special checks could be used for which no authorized signatures were required.¹⁴

Exempt agencies were required to deposit all ration currency in their accounts if they had accounts. This requirement was inserted at OPA's request, and by agreement with the exempt agencies so that figures on bank deposits would reflect the total amount of ration currency used in the system.

This regulation was amended only once when a purely technical change was made.¹⁵ Other than this, it stood as originally written until the end of 1945.

Disposition of These Regulations

General Ration Orders 3A and 3B were revoked on January 1, 1946.¹⁶ By that time sugar was the only commodity remaining on the rationed list so that there was no longer reason for most of the general ration orders. For reasons of legal and administrative simplicity, therefore, the provisions of these two orders were transferred to and incorporated in Third Revised Ration Order 3, the sugar rationing regulation.¹⁷

General Ration Order 3 was allowed to retain its separate identity, largely because it was of interest only to banks, and because all banks had copies of it in their loose-leaf instruction manuals which made it convenient to keep it separate.

¹⁴ See Ch. 11 for a discussion of this feature as used by the navy.

¹⁵ July 14, 1943. 8 F. R. 9457.

¹⁶ Order of Revocation, General Ration Order 3A, January 1, 1946. 11 F. R. 165. Order of Revocation, General Ration Order 3B, January 1, 1946. 11 F. R. 165.

¹⁷ January 1, 1946. 11 F. R. 134.

CHAPTER XIII

Conclusion

Like most of the elements that fitted into the wartime economic endeavor, the ration banking program had its share of successes and failures. In retrospect, the most significant fact is that it worked, that it accomplished what it set out to accomplish. Previous chapters have discussed and analyzed most of the program's technical problems; some conclusions about the program in general may now be indicated.

The Number of Participating Banks

In terms of the basic structure of the program, one change might well have been made which would have improved its efficiency and reduced its cost. A persuasive case can be made for the position that the number of participating banks should have been less by from one-third to one-half. The original decision, it will be recalled, was to invite the participation of all commercial banks, and almost all accepted the invitation. This approach had the advantage of eliminating all problems of competitive bidding, which would have been a part of any selective process, and of being the quickest way to get the program started. These were important considerations in early 1943.

The quality of service rendered by the banks varied widely from one to another. In the smallest banks the ration banking work was generally done last. Postings were made weekly, if that often, for the forty or fifty accounts usually handled by such institutions, and reports were made either late or not at all. The problem of keeping abreast of the many procedural changes was a real one. Finally, supervision from OPA, which will be discussed presently, was almost nonexistent. Under such conditions, the quality of the ration banking work was frequently not good.

At the other end of the scale, by way of contrast, the largest bank in the program had 12,000 accounts, nearly 1 percent of the total. The bank had a separate rationing department with 30 employees

handling 4,000 checks daily and 1,000 deposits. Supervision was excellent and instructions were scrupulously followed.¹

Between the two extremes, quality of performance varied from one bank to another, frequently depending on the attitude of the supervising officer. In one middle-sized branch system, for example, quality of performance was excellent, primarily because the officer in charge of ration banking was both conscientious and meticulous about instructions. His manuals, written from the OPA instructions, were excellent, frequently superior to the OPA manual. On the other hand, some other middle-sized banks performed in a mediocre fashion, viewing the program as temporary and therefore not particularly important.

The problem inherent in this situation could have been minimized if a careful selection of 5,000 to 7,000 banks had been made. Many of the small country banks carried accounts so small that their elimination would not have been important. In the towns and small cities, one of the several banks might have been designated the "ration bank". The concentration of ration banking activity would have facilitated immensely the problem of supervision.

On the other hand, whereas technical performance might well have been improved by using a smaller number of banks, other problems of an even more serious nature would probably have been raised by such a procedure. The process of selection would have been time-consuming, but even more important, it would have seriously disturbed the relationships between customers and banks throughout the Nation.

Following the installation of the program, the possibility of working out such an arrangement was considered on a number of occasions. It was rejected each time on the ground that making the selection would bring too many unfavorable repercussions. OPA's field organization resisted designating one out of, say, the three banks in any one town as the best adapted to conduct all ration banking in that town. While most banks did not enjoy their participation, they would not have wanted a competitor to assume the whole function; the likelihood is that dollar accounts would have followed the ration stamp. In the light of these considerations the original decision seems to have been the proper one.

Bank Performance

The novelty of the program, the frequency of its change, and the fact that all banks were extremely busy during the period with a greatly expanded commercial banking business, largely account for certain deficiencies in bank performances which merit comment. It may be

¹ Memorandum, J. A. Kershaw, Head, Ration Banking Section, to L. J. Kroeger, Executive Officer, "Ration Banking in New York City," May 15, 1943.

emphasized that no general indictment is intended; the fact remains that some parts of the operation (the clearance of checks, for example) were done better than others.

(a) *Bank reports*.—The struggle to obtain overdraft reports on time from all banks has been described in chapter 10. Much the same thing took place with respect to the monthly statistical report. This report was to be filed each month with OPA's central inventory unit in New York City, where it was tabulated and forwarded to the National Office. It set forth figures from the bank's proof sheets and contained such figures as the number of different types of stamps and coupons deposited during the preceding month.

In October 1943 OPA sent a communication to the banks reading in part: "On the fifteenth of September, *five days after all reports for August were due*, the central inventory unit had received only 8,000 of the 15,000 reports."² By a constant follow-up of delinquent banks, this problem was corrected and reporting was brought to about 98 percent.

In terms of the accuracy of reporting, however, similar efforts did not bring comparable results. It was necessary to continue a careful editing of the reports for the life of the program and each month to return a substantial number for correction. The memorandum quoted above continued, "Of these 8,000 reports, 1,400 contained errors which were obvious to the persons processing the report." Many errors were trivial and should not have occurred: for example, 125 reports of the 8,000 had simple errors in addition. In March 1945 the problem was no nearer solution; in that month 882 banks added incorrectly the listing of individual gasoline coupons.

Many errors were detected in the editing process. How many went undetected is, of course, unknown. For most of them there could be little excuse. For example, one bank reported an April 30, 1944, ledger balance in shoes of 2,286,450. Since this looked out of line with the rest of the report, the report was returned for verification. The corrected report was returned indicating a ledger balance of 1,102.³ This type of inaccuracy not only limited the use to which the figures could be put, but caused considerable waste of OPA's manpower.

(b) *Shipments to verification centers*.—The problem of bank and depositor endorsements on items shipped to verification centers was similar in nature. The failure on the part of many banks to adhere to the endorsement instructions impaired seriously the operation of the centers. At one time the banks, in a communication asking for

² Information Memorandum No. 17, October 6, 1943. Italics in original.

³ Some of these problems are dealt with in more detail in an address by the author to the National Association of Supervisors of State Banks, reproduced in the Proceedings of the 43d Annual Meeting, 1944, Milwaukee, Wis., pp. 83-91.

fuller cooperation, were told that "In some regions bank endorsements are missing on as many as a quarter of the items we receive."⁴ This situation persisted in spite of individual reminders sent by the centers and constant comments in newsletters about the problem.

(c) *Custody of items*.—Both defalcations and thefts of currency from outside are inevitable in bank handling of currency. These things occurred in the handling of ration currency as well. To some extent the losses were inevitable, but in many instances they might have been avoided. While exact figures are not available, it is probable that 50 or 60 major thefts occurred in banks, some with and some without the participation of bank employees.

For the most part, OPA felt that such occurrences could be attributed to the failure of bank officers and employees to appreciate the value of ration currency. Actually, it was extremely valuable in the black market. It was quite possible in 1944, for example, to carry \$25,000 worth of gasoline coupons in a brief case.

Two examples of how ration currency disappeared may be cited. In the first, a clerk was verifying deposits at a desk separated from the lobby by a marble rail. She left the desk for a moment and returned to find all the coupons gone. In the second, two officers checked the currency against the proof sheets before shipping it to the verification center. After proof they assigned it for wrapping and sealing to a janitor who had been with the institution for 28 years. The janitor removed a little each time before wrapping. Both instances, incidentally, occurred in highly reputable banks. Both could have been prevented.

The foregoing paragraphs indicate some of the areas in which the performance of some banks was unsatisfactory. By and large, however, an amazingly good job was done by them. Problems were rare in such matters as posting, clearing checks, submitting statements, and in other procedures which were similar to commercial banking operation. It is significant that general performance was less good when it came to the physical handling of deposited items. It was here that commercial banking experience was of least help, and it was here that the greatest complexity was found.

The ration currency itself was complex. For most of the period, the banks were handling six different programs, each with several types of currency valid at any given time, and other types recently invalidated, or soon to become valid. At one time there were nine kinds of coupons in gasoline alone, each expiring at a different time only to be replaced by a new one. That invalid items were accepted on occasion was not surprising.

⁴ Newsletter No. 23, June 28, 1945.

In addition, the frequency of change in administrative procedure contributed to the complexity and created confusion in some bankers' minds. Rationing was dynamic and OPA had to keep the banks informed of new developments that affected their operation. During 1943, in addition to the Manual of Operating Procedure, 52 instructional communications were sent to the banks. While some of these were of passing significance only, many were of real and lasting importance and required substantial operational changes on the part of the banks. Even during the calendar year 1945, more than 30 communications were sent to the banks.

Supervision of Banks by OPA

In one highly significant particular, OPA failed to discharge its responsibility in the program. With proper OPA supervision of the participating banks, many of the problems enumerated in the foregoing paragraphs could have been avoided or easily and quickly solved. Banks could have been shown how to function properly and invited to leave the system if they would not, or could not, do so. As it was OPA never had enough manpower in its field offices to perform this function satisfactorily.

Some help was obtained in the task of supervision from examiners of the Federal Deposit Insurance Corporation and the Federal Reserve System, and from the State and national bank examiners. All these examiners carried with them on each regular examination a ration banking questionnaire which was submitted to the responsible officer. If this indicated any trouble, the examiner probed into the operation or reported the matter to OPA. This type of help was of value psychologically, but did not provide real supervision.

Much work could be done, and was done, through State and local bank associations. But what was needed was a constant program of visits to banks. In the course of such visits, two things should have been accomplished. First, the president should have been kept constantly in sympathy with the program so that he would see that it received enough help and supervision. Second, time should have been spent with the employees, going through the operation to make certain that instructions were being followed and adequate controls maintained.

The National Office instructions called for four visits annually to be made to each bank by OPA district office personnel. With rare exceptions this schedule was never met. A study of bank visits was made for the months of April, May and June of 1945. Each district office was asked how many banks had been visited during that period. Had the standard of four visits per bank per year been adhered to,

each district would have visited a hundred percent of its banks in the three-month period. Actually, the accomplishment was as follows:

OPA region :	<i>Percentage of banks visited during 3-month period April-June 1945</i>	
1_____		23
2_____		13
3_____		22
4_____		27
5_____		42
6_____		17
7_____		61
8_____		21

This record was poor enough in itself, the national average being one visit per bank each year, but 26 of the 93 district offices had visited 10 percent or less of their banks, and 6 had visited none. The last category included the largest district in the country—New York City and environs—with 900 banks and branches.⁵

Under these circumstances the wonder is that the program operated as well as it did. Sometimes extremely unsavory conditions were found when a visit was finally made. In one case, a district office official made his first call on a bank early in 1945, two years after the program started. He found all the deposits that had ever been made lying in boxes in a small room; no checks had ever been cleared, and no ledger sheets had been made up for any depositor. The bank was required to withdraw immediately, but this action should have been taken months earlier. While this case was by no means typical (actually it was the most extreme case uncovered), it illustrates the dangers involved in letting the program run itself.

A final important consequence of this lack of supervision deserves mention. Under General Ration Order 3, OPA could require the withdrawal of any bank for any reason on 30 days' notice.⁶ This right was exercised very sparingly (in only about fifteen instances throughout the program), not because bank performance was so generally excellent, but simply because supervision was so slight that it was unusual when poor bank performance came to OPA's attention. Had OPA been able to make wider use of its compulsory withdrawal powers, the banks in general would have had a good deal more respect for the ration banking instructions and regulations. It was unfortunate that many bankers were aware of the fact that, while other

⁵ Memorandum, Kershaw to All Regional Ration Currency Control Officers, "Bank Visits," August 10, 1945.

⁶ Section 1305.411 (d) (2). This authority was reserved to the National Office by General Ration Order 3; to require a bank to withdraw was a very serious move—it was essential that a careful and consistent policy be followed in exercising the authority.

banks were not complying with instructions, they were not apprehended by OPA.

General Conclusions

Three very general conclusions emerge from the preceding chapters. First, the currency system that developed as the rationing systems were successively launched was complex and clumsy; some sort of banking arrangement was needed to enable it to function. The exchange mechanism originally installed at the local rationing boards did not prove satisfactory. Something beyond that had to be devised.

Second, the ration currency and banking system was sufficiently similar to the commercial currency and banking system so that commercial banking procedures could be adapted to handle it on a part-time basis without insuperable difficulties. The smoothness with which the program was installed attests the truth of this assertion, as does its successful withstanding of the very severe shock a month later occasioned by the introduction of ration stamp envelopes in place of gummed sheets for food.

Fundamentally, there were major differences between the ration currency and dollar currency systems. There was no rationing function analogous to the creation of bank money through the extension of bank loans. It might be contended that the existence of ration overdrafts was a form of bank ration credit. But the banks were completely passive agents in this procedure, and the procedure was of course quite illegal.

The lack of a circularity of flow of ration currency also distinguished it from money. Ration currency did its job but once; no problems of velocity of circulation arose, either with money or bank deposits. But these differences served merely to limit the role of the banks in the rationing system; they did not militate against its adaptation to commercial banking procedures.

Third, the Government's decision to draft the commercial banks appears in retrospect to have been sound. Question might be raised as to the merits of calling on an existing set of economic institutions to perform the necessary function as against establishing a new banking system operated by OPA. In favor of the latter, it may be pointed out that the use of the commercial banks required OPA to expend a considerable amount of time and energy on bank relations, that control of bank operations was not as direct as might have been desired, and that, since it was a part-time job for the banks, yielding no net income, some of them gave it less attention than was desirable.

On the other hand, there is much to be said particularly in what is known in advance to be a temporary situation, for refraining from building up a large administrative structure. To make such a struc-

ture operate effectively and efficiently requires time, as the verification center experience amply demonstrated; ration banking had to be effective from its first day in operation. Similarly, to stop it and liquidate it requires time, whereas the ration banking system will be terminated by a brief instruction mailed to all banks when sugar rationing terminates.

Part of the answer to the question surely rests in the costs of the alternative methods. Definitive answer to this part of it cannot be given, though it would appear to be doubtful at least that a banking system could have been operated as inexpensively without unrealistic centralization. After all, OPA paid no fees for rent, heat, light and most supervision, and the fees it did pay were based on costs of operation in areas where bank employees are the acknowledged experts.

So long as the program was temporary, the administrative costs of maintaining bank relations and of less direct control, which were offset in substantial part by the positive contribution of bankers' representatives in assisting in the program, were outweighed by the advantages of the system as it was operated.

It is clear that while the ration banking system fell some distance short of perfection it accomplished its purpose. The flow-back system for ration currency became the key to the controls of all the rationing programs, and for those using stamps and coupons ration banking was the device by which the flow-back system was made to work. Ration banking would have operated more effectively if more OPA personnel had been available to service it, or if rationing had been less dynamic and complicated, or if there had been more time to work out the many problems that arose. But considering the wartime conditions under which it was carried out and the complex task that had to be performed, the system achieved its purpose to a surprisingly high degree.



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